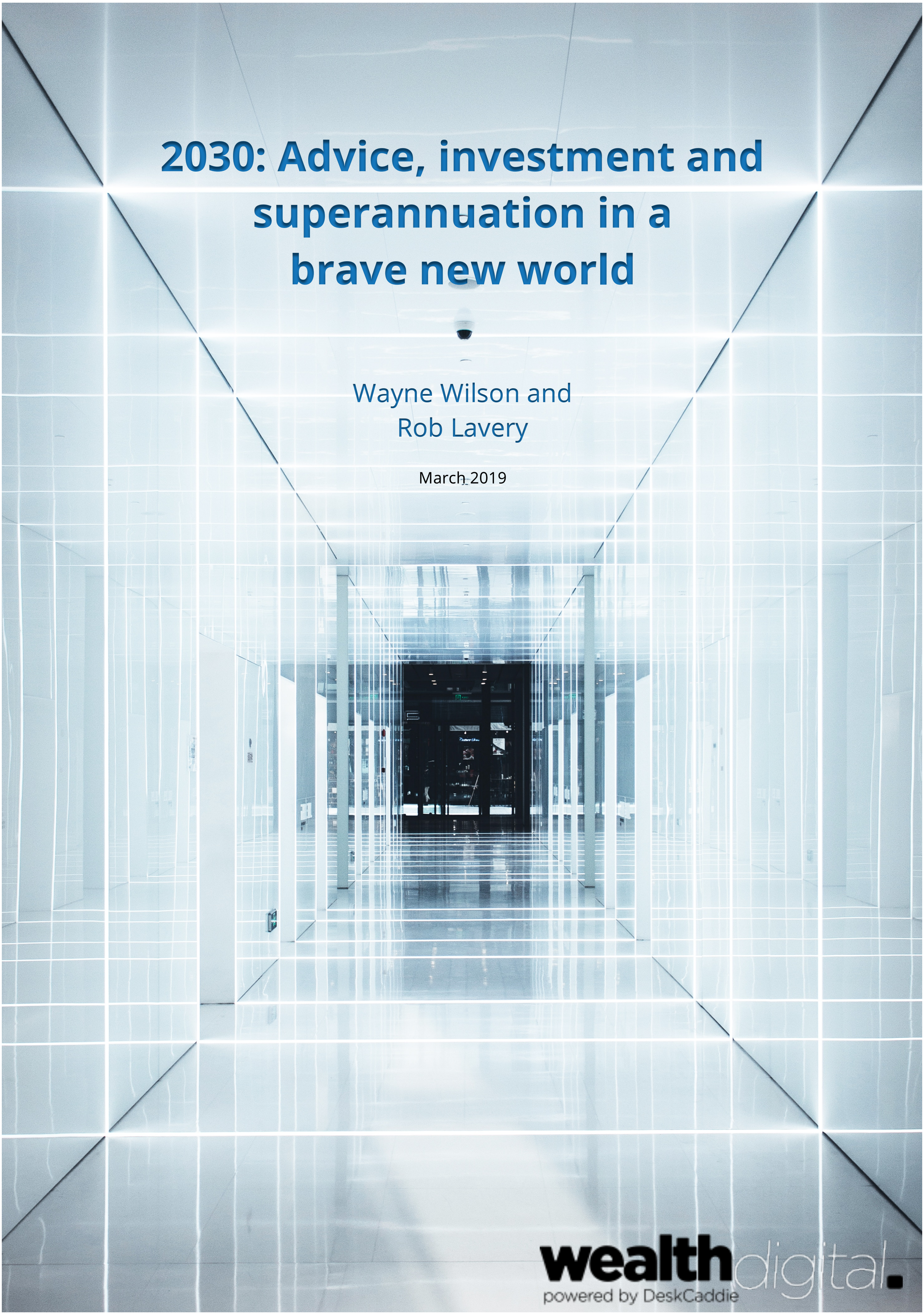

2030: Advice, investment and superannuation in a brave new world

Wayne Wilson and
Rob Lavery

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wealth*digital* provides technical library resources, goals-based strategy solutions, advice implementation tools, and business development services to over 4500 financial planners and practice principals across Australia. **wealth***digital* is the online business of know**IT***digital*. know**IT***digital* is a software product and services company that specialises in online tools and learning in the financial services industry.

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Extract

Change has come to define financial planning. From the industry's earliest days, changes in regulation, strategy and product have been an annual occurrence. Since 2014, the pace of change has rapidly increased, fuelled by technological advances and the prevalence of commentary on social media.

In this white paper, we endeavour to project what the financial advice industry will look like by the year 2030. This is a significant undertaking, with great unknowns, however the starting point and the focus of Part 1 of this paper is an examination of the various reviews, reforms and reports that inform the projections.

There are six main drivers of change identified. They are:

- The Life Insurance Framework reforms,
- Retirement income reform,
- The FASEA reforms,
- The Productivity Commission's final report on efficiency and competition in the superannuation industry,
- The Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry's final report, and
- The Royal Commission into Aged Care Quality and Safety.

The volume of changes contained in these six reports, reviews and reforms is immense. They are set to completely alter the remuneration structures of financial planners, the services that planners offer, and the characteristics of new entrants to the advice industry. They also will alter the greater financial services environment, including the role of the super fund and purpose thereof, the nature of funds management and investment platform businesses, and the ownership structure of financial planning businesses.

In this white paper, we endeavour to project what the financial advice industry will look like by the year 2030.

Part 2 of this white paper focuses on how these forces will change the industry by 2030, as well as the reasoning behind these predicted changes. In formulating these predictions, we have made the presumption that the recommendations of the Productivity Commission and the Royal Commissions will be executed in totality. Furthermore we take it as read that already implemented reforms are maintained with planned future reform programs executed as currently outlined.

The results of applying this methodology show an advice industry in 2030 that is very different from today's. The rise of intra-fund and other super fund-based advice offerings will have forced unaligned advisers to examine different advice services. A greater delineation between transactional and ongoing advice will emerge, with more product-agnostic advice services available than is currently the case. Services such as aged care advice and debt management advice will become more prominent.

Financial planners will have reduced in numbers, be younger on average, and will be less likely to have changed career to enter the industry. Small-to-medium sized privately owned licensees, some aligned to boutique Managed Account providers, will have risen in number, while advice businesses will face reduced valuations of ongoing revenue.

Industry funds will have taken over the superannuation marketplace, however the indexed nature of their investments will cause investment managers to apply fewer resources to active investment strategies. Those fund managers providing active investment strategies will target direct investment and self managed super funds. Insurers will be forced to look to new technologies and avenues to distribute their products with adviser-intermediated policies accounting for a smaller distribution footprint.

Lastly, automation and robo-advice will provide a challenge to financial advisers, but will also drive improved processes and outcomes which will ultimately benefit consumers.

It is important to acknowledge that there will be further twists in the road before 2030 and financial planning is always subject to changes in political will. That said, the road to financial planner professionalism, the public-service expectations being placed on super funds, and the progress of technology all provide strong markers as to the future of the industry.

Part 1 – The reforms

Today, the very fundamentals of financial planning are in flux. The entry requirements for financial planners, as well as the ongoing training obligations, have been upended by the 2017 Professional Standards of Financial Advisers Bill. The Life Insurance Framework, in conjunction with the Banking Royal Commission, will bring further change to remuneration models already dramatically altered by the Future of Financial Advice reforms. The role superannuation plays in advice strategy is set to be shaken up by the Productivity Commission's report on efficiency and competition in the superannuation industry.

To examine what the financial planning industry will look like by 2030, it is important to understand which changes have been recommended by the myriad reports, reviews and reforms released in recent years. It is also crucial to know which changes have already been implemented.

With this in mind, the best place to start is by looking at the following reviews and reforms in detail:

- The Life Insurance Framework,
- Retirement income reform,
- The FASEA reforms (created by the Professional Standards of Financial Advisers Bill),
- The Productivity Commission report on efficiency and competition in the superannuation industry,
- The Royal Commission's final report on Misconduct in the Banking, Superannuation and Financial Services Industry, and
- The Royal Commission into Aged Care Quality and Safety.

It should be noted that the Productivity Commission also issued a report on Competition in the Australian Financial System in 2018. This report only touched on advice tangentially and, where it did, it was built on by the Banking Royal Commission in its final report.

Life Insurance Framework

In 2014, the Association of Financial Advisers (AFA) and the Financial Services Council (FSC) set up a Life Insurance and Advice working group chaired by John Trowbridge. The group's role was to review the incentives identified in a damning report issued by ASIC in October 2014 called the Review of Retail Life Insurance Advice.[1]

The group was asked to make recommendations on how the insurance advice industry can respond to ensure that Australians are adequately insured and receive quality financial advice.

The Trowbridge Report was released in March 2015 and its main recommendations included:

- changes to adviser remuneration with a transition period,
- requirements for all licensees to have at least seven products on the approved product list and to improve customer understanding of life insurance, and
- the introduction of a life insurance code of practice.[2]

[1] John Trowbridge, "Review of Retail Life Insurance Advice", Accessed March 3, 2019, https://www.adviservoice.com.au/wp-content/uploads/2015/03/Final-Report-Review-of-Retail-Life-Insurance-Advice-Final-Copy-CLEAN.pdf

[2] Trowbridge, "Review of Retail Life Insurance Advice".

The Coalition Government subsequently formulated a life insurance reform package in November 2015, commonly referred to as the Life Insurance Framework (LIF).[3] In February 2017, parliament passed a bill to apply conflicted remuneration rules to life insurance policies sold to retail clients.[4] This bill was followed in March by regulations and a legislative instrument from ASIC in June.[5]

These changes applied from January 1, 2018. They were not applied to policies where the application was commenced before January 1, 2018, and the policy was issued before April 1, 2018.

ASIC is due to review the impact of the LIF reforms in 2021.

The LIF rules

The LIF rules relate to all new life insurance policies that are not group policies in super, nor part of a default super fund. All commissions on group policies or policies in default super funds were banned by the preceding Future of Financial Advice (FoFA) reforms.

Under the LIF rules, upfront commissions above the set limits are considered "conflicted remuneration" and have harsh financial penalties applied to them (up to $200,000 for an individual and $1 million for a corporation).

Under the LIF rules, upfront commissions above the set limits are considered "conflicted remuneration"

What are the limits?

Level commissions do not have any maximum percentages prescribed. If the commission percentage in the first year is the same as in ongoing years, it is not considered conflicted remuneration, regardless of how high the percentage may be.

The upfront commission limits are being phased in as follows:

Date the policy is incepted	Upfront commission limit	Ongoing commission limit
Any time in 2018	80%	20%
Any time in 2019	70%	20%
From January 1, 2020	60%	20%

These percentages are applied to the total cost of the policy including policy fees.[6]

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[3] Kelly O'Dwyer, "Government introduces significant improvements to life insurance industry", November 6, 2015, http://kmo.ministers.treasury.gov.au/media-release/024-2015/

[4] *Corporations Amendment (Life Insurance Remuneration Arrangements) Act 2017*, (Canberra: Parliament of Australia), https://www.legislation.gov.au/Details/C2017A00006

[5] ASIC, "17-168MR ASIC releases instrument setting the commission capsand clawback amounts as part of the life insurance advice reforms", June 5, 2017, https://asic.gov.au/about-asic/news-centre/find-a-media-release/2017-releases/17-168mr-asic-releases-instrument-setting-the-commission-caps-and-clawback-amounts-as-part-of-the-life-insurance-advice-reforms/

[6] *ASIC Corporations (Life Insurance Commissions) Instrument 2017/510*, (ASIC), https://www.legislation.gov.au/Details/F2017L00636

Clawbacks

Further to the limits being applied, if a policy is cancelled within its first two years, all or part of any commission paid to the adviser must be returned to the life company. The clawback required is:

Time of cancellation	Percentage of commissions to be clawed back
In the first year of the policy	100%
In the second year of the policy	60%

There are certain circumstances in which commissions do not need to be clawed back. These are:
- Where the insured dies,
- Where the insured intentionally self-harms,
- Where the policy is cancelled due to the insured reaching an age limit of the product, or
- Where an administrative error has been made.[7]

Other variables

Where there are client-driven increases in the policy cost of an existing policy, a new one-year upfront commission can be paid on the amount of the increase in cost. This is in addition to the existing trailing commissions relating to the initial cost of the policy. It is important to note that an automatic increase in cover, such as the indexation of a benefit, is not considered client-driven. Therefore, such an increase would not give rise to a new one-year upfront commission amount.

Similarly, if the policy cost is decreased in the first two years, a partial clawback of commissions relating to that amount of the policy cost is required. There are certain circumstances where the clawback is not required and these include:
- Where there is an agreed reduction in risk of the person insured claiming,
- Where no reduction in risk, the product issuer just chooses to reduce the premium,
- Where a cost reduction is given to incentivise the insured to keep the product,
- Where a claim has been paid, or
- Where an administrative error has been made.

The rules relating to increases and decreases do intersect and partial clawbacks can occur where increases are then reduced.[8]

[7] ASIC Corporations (Life Insurance Commissions) Instrument 2017/510
[8] ASIC Corporations (Life Insurance Commissions) Instrument 2017/510

Retirement income reform

In 2016, Treasury consulted on a framework for Comprehensive Income Products for Retirement (CIPRs), or MyRetirement products.[9] Such products were outlined to be something of a hybrid – part market-exposed income stream with variable payments amounts, part guaranteed lifetime income stream.

In the subsequent years, a number of legislative and regulatory changes have been made to pave the way for CIPRs. In addition, a Treasury position paper was released on the implementation of a "retirement income covenant".[10] Such a covenant would impose requirements on super funds in relation to the provision of advice on CIPRs.

The covenant

Such a retirement income covenant would impose requirements on super funds in relation to the provision of advice on CIPRs.

Treasury's paper outlined 8 principles that will govern the implementation of the retirement income covenant. They are:

1. Trustees should assist members to meet their retirement income objectives throughout retirement by developing a retirement income strategy for members.
2. Trustees should assist members to meet their retirement income objectives by providing guidance to help members understand and make choices about the retirement income products offered by the fund.
3. A definition of a CIPR.
4. All trustees should offer a flagship CIPR to members at retirement, subject to limited exceptions.
5. Trustees can fulfil their obligation in part or in full by using a third party.
6. Consent should be required for a CIPR to commence.
7. Trustees may offer an alternate CIPR or another retirement income product to a particular person or cohort of people through any form of personal financial advice, including scaled personal advice, intra-fund advice, or full financial planning.
8. Trustees may choose not to offer a CIPR at all to a particular person if the trustee has reliable information that a CIPR would not suit that person.[11]

Developing a retirement income strategy

Treasury outlined the following factors trustees would need to consider when formulating a retirement income strategy that would comply with the first principle:

- maximising income for life for members;
- the potential life spans of members and the costs and benefits of managing longevity risk for members as a whole;
- managing risks that affect the stability of income, including inflation;

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[9] The Australian Government The Treasury, "Development of the framework for Comprehensive Income Products for Retirement", Accessed March 4, 2019, https://consult.treasury.gov.au/retirement-income-policy-division/comprehensive-income-products-for-retirement/
[10] The Australian Government The Treasury, *Retirement Income Covenant Position Paper* (Canberra: The Treasury), https://treasury.gov.au/sites/default/files/2019-03/c2018-t285219-position-paper-1.pdf
[11] The Australian Government The Treasury, *Retirement Income Covenant Position Paper*

- providing members with access to capital;
- member needs and preferences for the factors above;
- the costs and benefits to members of developing a CIPR in-house compared with offering a CIPR developed and managed by a third party or a combination of both in-house and a third party;
- expected member eligibility for the Age Pension; and
- whether and how cognitive decline may affect outcomes.[12]

Trustee guidance on retirement income choices

The second guiding principle requires trustees to provide guidance to members on their retirement income options in super. Trustees can provide this guidance through full financial advice, intra-fund advice or the provision of tools not considered advice.

For funds with a number of different retirement income products, this advice may get quite complicated. It may also start to encroach on the relationship between the member and their existing financial planner. Planners will need to be aware of this requirement and ensure their clients are in contact with them through this process.[13]

Member acceptance and exceptions

The sixth guiding principle requires that the member actively choose to commence their CIPR. What this means is that, while their fund is required to offer them a CIPR, the member can choose to reject that offer. Furthermore, the fund cannot default a member into a CIPR.

Under the eighth guiding principle, funds would not be required to offer a CIPR if they are aware of a sound reason that it would not be suitable for the member. The two instances outlined in Treasury's position paper are where:

1. The member has a terminal or life-threatening illness, or
2. The member has a balance below $50,000 in super.[14]

Multiple submissions on Treasury's position paper identified the $50,000 threshold as being too low. In response, the Assistant Treasurer announced this threshold would be increased to $100,000.[15]

FASEA reforms

The Financial Adviser Standards and Ethics Authority (FASEA) was appointed to fill the role of "standards body", created by 2017's Professional Standards of Financial Advisers Bill.[16] FASEA is charged with implementing and monitoring a number of new requirements applied to financial advisers by the bill. These new requirements include:

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[12] The Australian Government The Treasury, *Retirement Income Covenant Position Paper*, 4
[13] The Australian Government The Treasury, *Retirement Income Covenant Position Paper*, 5
[14] The Australian Government The Treasury, *Retirement Income Covenant Position Paper*, 10
[15] Stuart Robert, "Address to the Financial Servuces Council, Sydney", October 31, 2018, http://srr.ministers.treasury.gov.au/speech/005-2018/
[16] *Corporations Amendment (Professional Standards of Financial Advisers) Act 2017*, (Canberra: Parliament of Australia), https://www.legislation.gov.au/Details/C2017A00007

- All new and existing advisers must complete an undergraduate or postgraduate financial planning qualification,
- All new and existing advisers must pass an examination,
- All advisers must adhere to a new set of Continuing Professional Development Standards, and
- All new advisers must undertake a professional year before they commence providing unsupervised advice.

Additionally, FASEA was charged with creating a code of ethics by which financial advisers must abide. Financial advisers must then become members of a "code monitoring body" that will police their adherence to the code.[17]

FASEA spent much of the second half of 2018 consulting on their policies and released finalised versions over the period from December 2018 to February 2019.

Higher qualifications

The pathways new and existing advisers can follow to meet the new qualifications requirements are set out in a policy statement issued by FASEA[18], and the list of approved degrees in a legislative instrument.[19]

Existing advisers

Existing advisers are required to complete an 8-subject Graduate Diploma in Financial Planning unless they have already completed an approved degree. The path by which existing advisers can meet this requirement depends on their current qualifications. FASEA's guidance splits existing advisers into 4 categories:

- Those with an approved degree
- Those with a degree in a relevant field
- Those with a degree in an unrelated field
- Those with no degree[20]

An existing adviser is generally someone who has provided advice in 2016, 2017 or 2018 who is not disqualified.

Those with an approved degree

Existing advisers with an approved degree will need to complete a single subject on ethics and professionalism. All approved degrees are identified both on FASEA's website, and in a legislative instrument.[21]

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[17] Corporations Amendment (Professional Standards of Financial Advisers) Act 2017
[18] Financial Adviser Standards and Ethics Authority, *FPS001 Education Pathways Policy* (Sydney: FASEA), https://www.fasea.gov.au/wp-content/uploads/2019/01/FPS001-FASEA-Policy-Statement-Education-Pathways-revised-Jan-2019-vFINAL2.pdf
[19] *Corporations (Relevant Providers Degrees, Qualifications and Courses Standard) Determination,* (Sydney: FASEA), https://www.legislation.gov.au/Details/F2018L01833
[20] Financial Adviser Standards and Ethics Authority, *FPS001 Education Pathways Policy*
[21] Financial Adviser Standards and Ethics Authority, *FPS001 Education Pathways Policy*, 10

Those with a degree in a relevant field

Those with a degree in a relevant field are eligible for 4 subjects' worth of course credits towards a required Graduate Diploma in Financial Planning. This leaves only 4 subjects to be completed. Course credits can be earned through Recognition of Prior Learning (RPL) that reduce the requirements to a single subject on ethics.

FASEA's policy statement considers any course at a bachelor's degree level or higher of 8 subjects or more in any one or combination of the following fields as relevant:

- Financial planning
- Accounting
- Finance
- Banking
- Investments
- Economics
- Law (tax, finance, estate or business)[22]

The Financial Adviser Standards and Ethics Authority (FASEA) was appointed to fill the role of "standards body", created by 2017's Professional Standards of Financial Advisers Bill. FASEA is charged with implementing and monitoring a number of new requirements.

Those with a degree in an unrelated field

Existing advisers with a degree:

- at bachelor's level or higher,
- of 8 subjects or more, and
- in an unrelated field

will be eligible for 1 subject's worth of course credits towards the required Graduate Diploma. This leaves 7 subjects to be completed. Course credits can be earned through RPL that reduce the requirements to as little as a single subject.

An unrelated degree is one in a field not listed as being relevant and not on FASEA's approved degree legislative instrument.[23]

Those with no degree

Existing advisers with no degree are required to complete an approved 8-subject graduate diploma in financial planning. Course credits can be earned through RPL that reduce the requirements to as little as four subjects.[24]

New advisers

New advisers will be required to undertake an approved bachelor's degree, which is typically 24 subjects. A post-graduate pathway has been introduced which will allow career-changers to complete an approved 8-subject graduate diploma or a 12-subject masters. A career-changer is someone who has:

- tertiary qualifications in another field and/or
- significant experience (a minimum of 3 years) in a related field.

[22] Financial Adviser Standards and Ethics Authority, *FPS001 Education Pathways Policy*, 10-11
[23] Financial Adviser Standards and Ethics Authority, *FPS001 Education Pathways Policy*, 11-13
[24] Financial Adviser Standards and Ethics Authority, *FPS001 Education Pathways Policy*, 13-14

Whether the new adviser is a career-changer is at the discretion of the education provider.[25]

Adviser exam

All advisers will be required to complete a centrally administered exam. Any adviser who is registered as an Authorised Representative on the Financial Adviser Register prior to December 31, 2018 will have until January 1, 2021 to sit and pass the exam. All new or returning advisers from January 1, 2019 will need to pass the exam before they can complete their professional year and commence providing advice.

Details of the exam are set out in a legislative instrument issued by FASEA.[26]

Exam parameters

The exam will be 3.5 hours long plus 15 minutes of reading time. It will consist of at least 70 questions, of which at least 64 will be multiple choice and 6 short answer or report-style. The exam will be marked to a "credit level" and those who sit the exam will only be informed that they have passed or failed.

The exam will generally be undertaken in one of a number of centralised locations, using computers provided by the exam administrator. In circumstances where advisers cannot travel or are in remote locations, alternative arrangements may be permitted from January 1, 2020.[27]

Exam content

The exam will be set at a level equivalent to a bachelor's degree. The legislative instrument identified 3 areas to be assessed:

1. The legal and regulatory obligations of financial advice. This includes
    - Chapter 7 of the Corporations Act (which deals with financial services),
    - the anti-money laundering and counter-terrorism act,
    - the privacy act, and
    - the Tax Agent Services Act.
2. Applied ethical and professional reasoning and communication. This includes:
    - Knowing FASEA's code of ethics and how to apply it,
    - Explaining the importance of a code of ethics and its importance in ensuring advisers adhere to professional standards,
    - Apply ethical frameworks to solve dilemmas encountered by advisers,
    - Explain the importance of, and demonstrate how, an adviser meets their requirement to act in the best interests of their clients, and
    - Identify the importance of due diligence and the importance of maintaining client files and records.
3. Financial advice construction. This covers the knowledge required to provide compliant financial product advice. The instrument outlines that this is wider than just choosing appropriate strategies and includes understanding community profiles at a retail client

[25] Financial Adviser Standards and Ethics Authority, *FPS001 Education Pathways Policy*, 7
[26] *Corporations (Relevant Providers Exams Standard) Determination,* (Sydney: FASEA), https://www.legislation.gov.au/Details/F2019L00098
[27] Corporations (Relevant Providers Exams Standard) Determination

level, consumer behaviour and decision making and the need to avoid misconduct and inappropriate advice.[28]

Revamped Continuing Professional Development requirements

Previously, Continuing Professional Development (CPD) standards were somewhat nebulous. Licensees typically mimicked the requirements set by professional bodies and the adequacy of CPD was overseen by ASIC. On January 1, 2019, FASEA assumed these functions and has set out CPD requirements in a policy statement and legislative instrument.[29]

Minimum hours

The minimum number of annual CPD hours is 40. For advisers who work on a part-time basis, this may be reduced to 36 hours, however they must gain the prior written consent of their licensee to make this reduction.

The CPD categories and minimum hours are:

1. Technical competence (5),
2. Client care and practice (5),
3. Regulatory compliance and consumer protection (5),
4. Professionalism and ethics (9), and
5. General (no minimum).

A CPD activity can count towards more than one of the 5 categories, however activity hours may not be double-counted.[30]

"Approved" CPD

Approval of CPD activities is the responsibility of an adviser's licensee. 70% of the minimum 40 hours (28 hours) is required to be CPD approved by the licensee. The remaining 12 hours still need to be a "qualifying CPD activity", it just doesn't require licensee approval. There is no minimum CPD hours in each category that must be approved.[31]

Licensee requirements, including approval processes

Each licensee is required to create, maintain and adhere to their CPD policy. This policy must include:

- The licensee's CPD year (when it commences and ends),
- The licensee's overall approach to its CPD obligations and those of its authorised representatives,
- How the licensee:
    - Approves CPD plans of its advisers,

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[28] Corporations (Relevant Providers Exams Standard) Determination

[29] Financial Advisers Standards and Ethics Authority, "Continuing Professional Development Legislative Instrument", Accessed March 6, 2018, https://www.fasea.gov.au/cpd-legislative-instrument/

[30] Financial Adviser Standards and Ethics Authority, *FPS004 Continuing Professional Development Policy* (Sydney: FASEA), https://www.fasea.gov.au/wp-content/uploads/2019/01/FPS004-CPD-Policy-revised-vFINAL-1.pdf, 6

[31] Financial Adviser Standards and Ethics Authority, *FPS004 Continuing Professional Development Policy*, 6

- Monitors and implements these CPD plans,
- Assesses, approves and attributes hours to CPD activities,
- Ensures its advisers meet the minimum approved CPD requirements,
- Ensures it, and its advisers, comply with the licensee's policy and the regulations,
- Maintains records and evidences completion of CPD by its advisers.

The CPD policy must be published on the licensee's website.[32]

CPD years

The start and end dates of a CPD year are generally to be set by the licensee. In 2019, where the licensee's CPD year starts after January 1, the first CPD year's requirements with be proportionally increased for the time between January 1 and the start of the CPD year.[33]

CPD plans

It is the responsibility of the advisers themselves to create their annual CPD plan. These plans must by in writing and must include:

> areas for improvement in the provider's competence, knowledge and skills and describe the qualifying CPD activities the provider will complete during the CPD year to achieve those improvements.

If the adviser's employer is their licensee, they must provide their plan to that employer. Plans can be amended at any time.[34]

Professional year

FASEA has set out the professional year requirements for new advisers in a legislative instrument.[35]

Requirements to be completed in a professional year

A new adviser (or provisional relevant provider) must complete a minimum of one full-time year's worth of employment before they can be registered as a full relevant provider and provide advice to retail clients. FASEA defines this year as a minimum of 1600 hours' worth of work split between:

- 100 hours structured training, and
- 1500 hours of work and supervised experience.

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[32] Financial Adviser Standards and Ethics Authority, *FPS004 Continuing Professional Development Policy*, 5-7

[33] Financial Adviser Standards and Ethics Authority, *FPS004 Continuing Professional Development Policy*, 7

[34] Financial Adviser Standards and Ethics Authority, *FPS004 Continuing Professional Development Policy*, 7-8

[35] Financial Advisers Standards and Ethics Authority, "Work and Training (Professional Year) Requirements Legislative Instrument), Accessed March 6, 2018, https://www.fasea.gov.au/work-and-training-legislative-instrument/

This requirement cannot be completed before a full calendar year has elapsed. If the provisional relevant provider is employed on a part-time basis, a time-period longer than a year may be required.[36]

Required outcomes

There are a range of activities for a provisional relevant provider to complete in their professional year, as well as a list of competencies they must demonstrate.

Activities

The activities to be completed are:

- to analyse, compare and apply underlying principles and theories from relevant areas of technical competence to complete work assignments and make decisions, and to do so efficiently; and
- to integrate technical competence and professional skills in managing and completing work assignments; and
- to understand and apply the Code of Ethics, including in relation to inappropriate personal advantage, and professional values and attitudes, to work assignments; and
- to present information and recommendations, and explain ideas, orally and in writing in a clear confident and professional manner likely to be understood by retail clients; and
- to make appropriate judgments on courses of action, drawing on professional values, ethics and attitudes; and
- with appropriate consultation, to assess, research and develop appropriate solutions for complex business or client problems and issues.[37]

Competencies

The competencies to be demonstrated are:

- technical competence: technical proficiency to ensure that advice strategies are appropriate to the objectives, financial situations and needs of different classes of retail clients;
- client care and practice: the ability to act as a client-centric practitioner in advising both new and existing clients;
- regulatory compliance and consumer protection: a satisfactory understanding of applicable legal obligations and how to comply with them; and
- professionalism and ethics: the ability to act as an ethical professional.

Professional year plan

A provisional relevant provider must develop and agree on their professional year plan with their licensee and supervisor. The plan must include a number of elements, including:

- The names of the provisional relevant provider, their supervisor and licensee.
- The names of any other authorised planner who will provide oversight or supervision during the provisional relevant provider's professional year.
- The time-period covered by the professional year (including a split into quarters).

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[36] *Corporations (Work and Training Professional Year Standard) Determination,* (Sydney: FASEA), https://www.legislation.gov.au/Details/F2018L01804

[37] Corporations (Work and Training Professional Year Standard) Determination

- Specific work and training requirements to be completed by the provisional relevant provider during the year.
- The resources and opportunities the licensee will make available to the provisional relevant provider.
- A quarter by quarter breakdown of the work and formal training activities to be completed by the provisional relevant provider.[38]

The Productivity Commission report on efficiency and competition in the superannuation industry

After issuing a draft report last May, the Productivity Commission's final report on efficiency and competition in the superannuation industry was provided to Coalition Government in December 2018, and released publicly on January 10, 2019.[39]

The report makes 31 recommendations. The key recommendations for advisers are:

1. The implementation of a one-off default-super process for members.
2. The creation of a "best in show" list for default funds.
3. The creation of an independent panel to oversee the "best in show" list".
4. Regular APRA benchmark testing for MySuper and choice funds, including testing of returns.
5. Auto-consolidating dormant super accounts with balances up to $6,000.
6. Creating a standardised member-facing "dashboard" all funds must adhere to and publishing all these dashboards on ASIC's MoneySmart site.
7. Limit the term "advice" to personal advice and require all AFSL's to provide their APL information to ASIC, including off-APL use, for online publication.
8. Review the need for the "Retirement Income Covenant".
9. Increase the education and training requirements for SMSF advisers and require the Coalition Government's proposed "design and distribution obligations" be applied to establishing SMSFs.
10. Banning all trailing commissions paid to advisers from super funds.
11. Low-balance account protections be legislated.
12. Establishment of an inquiry into insurance in super.
13. ASIC to undertake regular thematic reviews of financial advice relating to super.
14. Establishment of an inquiry into the holistic Australian retirement incomes system.[40]

A one-off default super process

As it stands, an employer's default superannuation product for new employees is one chosen by the employer either from the full list of those with MySuper accreditation, or from a shortlist outlined in an award or bargaining agreement. The range of options available to the employer depends on the employee's employment arrangement.

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[38] Corporations (Work and Training Professional Year Standard) Determination

[39] Australian Government Productivity Commission, "Superannuation", Accessed March 8, 2019, https://www.pc.gov.au/inquiries/completed/superannuation

[40] Australian Government Productivity Commission, *Superannuation: Assessing Efficiency and Competitiveness* (Canberra: The Productivity Commission), https://www.pc.gov.au/inquiries/completed/superannuation/assessment/report/superannuation-assessment.pdf

The Productivity Commission's report favours a model whereby default funds are not chosen by the employer, rather the employee chooses with assistance from an independent expert panel. What's more, the default arrangement only applies when the employee first needs to choose a fund. When they then change employers, if they do not opt to use a different fund, their previous fund must be contributed to by the new employer.

Employees, employers and the Coalition Government would all interact with this new system of superannuation choice through a centralised, ATO-hub. This hub and process is recommended to be in place no later than December 2021.[41]

The "best in show"

Under the Productivity Commission's model, when an employee with no existing super fund commences their first super-supported employment arrangement, they will be directed to the ATO-hub (likely through mygov) where they will be able to choose a default fund. Their chosen fund can be any complying super fund but, for those who don't have a specific fund in mind, a list of 10 "best in show" funds will be provided from which they can choose. If no choice is made, the employee is put into one of up to 10 of the "best in show" funds on a rotating basis.

The report recommends that this "best in show" default process be implemented no later than June 2021.[42]

The Productivity Commission's report favours a model whereby default funds are not chosen by the employee, rather than the employer.

What is "best in show"?

The Productivity Commission's model recommends that the "best in show" list be chosen by a panel of independent experts. In setting the criteria to be in the "best in show" list, the panel should be governed by the following factors:

- The likelihood of the fund providing the best outcomes for members in accumulation phase, factoring in risk,
- The suitability of the fund for defaulting members, and the public in general, and
- Ensuring competition to be on the list is maintained.

The process of choosing the "best in show" funds would be repeated every four years. The panel itself would be reviewed and new appointments made over the same time frame.[43]

Establishing the "independent expert panel"

Under the Productivity Commission's model, the panel would be reconstituted every 4 years with no more than half the panel being re-appointed. Panel members should be limited to 2 terms.

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[41] Australian Government Productivity Commission, *Superannuation: Assessing Efficiency and Competitiveness*, 547-542

[42] Australian Government Productivity Commission, *Superannuation: Assessing Efficiency and Competitiveness*, 542-551

[43] Australian Government Productivity Commission, *Superannuation: Assessing Efficiency and Competitiveness*, 542-551

Members of the panel should collectively possess:
- Super system and financial expertise,
- Insights into consumer behaviour, and
- The skills to undertake the evaluation task.

The report strongly identifies the need for political independence. Panel members would be chosen by a further selection committee comprising:
- Heads of respected, independent Coalition Government agencies (such as the RBA, ACCC and PBO), and
- A consumer representative.

The selection committee's recommended panellists would then need be appointed by the speaker of the house and president of the senate with the approval of the joint committee of public accounts and audit.[44]

Regular APRA testing of MySuper and choice super products

The report recommends annual testing for all MySuper and APRA-regulated choice super options against an "outcomes test". This outcomes test would comprise two elements:
1. An assessment of the investment strategy appropriateness, level of risk and insurance offering, and
2. An assessment of the option's investment performance against a benchmark.

In addition to annual testing, a tri-annual independent assessment to "audit-level" would need to be undertaken. Failure to meet the outcomes test could see a MySuper fund lose its place in the "best in show" list and could see choice super options no longer allowed to remain in the marketplace.

This full testing program is recommended to be in place by 2022.[45]

Investment benchmarking

The report recommends that each MySuper fund and choice option's 8-year rolling investment returns be compared to that of a chosen benchmark. If the option or fund falls below the benchmark by 0.5 percentage points a year, no new members can choose that option and 12-month period of remediation would be allowed. If inadequate improvement in performance is shown after that 12 months, the option or fund will be required to close and roll existing members into another fund or option.

The benchmarks against which an investment option would be tested is to be chosen by the fund from a weighted list of market indices that reflect the fund's investment split. As such, the indices used for benchmark would be flexible.[46]

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[44] Australian Government Productivity Commission, *Superannuation: Assessing Efficiency and Competitiveness*, 564-571

[45] Australian Government Productivity Commission, *Superannuation: Assessing Efficiency and Competitiveness*, 586-591

[46] Australian Government Productivity Commission, *Superannuation: Assessing Efficiency and Competitiveness*, 586-591

Fee control

In the final report, the Productivity Commission advocates strong fee control on super funds. The report states that:

> Because super funds are legally obliged to act in members' best interests, the fees they charge should not exceed cost recovery levels.[47]

Auto-consolidate small, inactive super accounts

Legislation has passed parliament that will require super accounts of less than $6,000, which have been inactive for at least 16 months, be auto-consolidated by the ATO.[48] This legislation was promoted by the Productivity Commission's report.[49]

Extend the draft "design and distribution obligations" to SMSF implementation

The Coalition Government has consulted on a set of design and distribution obligations for financial product providers. These obligations include:

1. Requiring offerors to make a target market determination. No determination would mean the product cannot be distributed.
2. Requiring offerors review target market determinations and adhere to those determinations.
3. Requiring offerors to maintain distribution information (including around complaints).[50]

The Productivity Commission's report would extend these obligations to the establishment of SMSFs. The report specifically recommends advisers be able to justify why an SMSF is recommended where the balance would be below $500,000.[51]

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[47] Australian Government Productivity Commission, Superannuation: Assessing Efficiency and Competitiveness, 40

[48] *Treasury Laws Amendment (Protecting Your Superannuation Package) Bill 2019*, (Canberra: Parliament of Australia), https://parlinfo.aph.gov.au/parlInfo/download/legislation/bills/r6141_aspassed/toc_pdf/18127b01.pdf;fileType=application/pdf

[49] Australian Government Productivity Commission, Superannuation: Assessing Efficiency and Competitiveness, 34

[50] The Australian Government The Treasury, "Treasury Laws Amendment (Design and Draft Obligations and Product Intervention Power) Bill 2018", Accessed March 9, 2019, https://treasury.gov.au/consultation/c2018-t312297

[51] Australian Government Productivity Commission, Superannuation: Assessing Efficiency and Competitiveness, 39

Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry

On February 4, 2019, the final report of the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry was released to the public.[52] The Coalition Government responded shortly thereafter, claiming broad agreement with the recommendations in the final report.[53] Later in February, the Opposition also responded.[54]

The end of grandfathered commissions

The final report from the Royal Commission recommend the cessation of grandfathered commission arrangements relating to superannuation or investment products.[55] The Coalition Government's response to the final report put a date on this cessation – January 1, 2021.[56] The Opposition's response stated that they would end grandfathered commissions a year earlier.[57]

The final report from the Royal Commission recommend the cessation of grandfathered commission arrangements.

Going hand in hand with this change is the Royal Commission's recommendation that all ongoing fees be approved annually by clients. This means that pre-July 2013 arrangements, to which the current two-yearly opt-in requirements do not apply, will be captured.

This recommendation specifically notes that any ongoing payments made to an adviser from a product must be approved by the client at least annually. Another recommendation would prevent any adviser fees (barring intra-fund advice fees) from being paid out of MySuper accounts.[58]

While they have agreed to implement these ongoing fee recommendations, both the Coalition Government and Opposition have set no date for their commencement.[59] [60]

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[52] The Australian Government The Treasury, "Final Report of the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry", Accessed March 10, 2019, https://treasury.gov.au/publication/p2019-fsrc-final-report
[53] The Australian Government The Treasury, "Restoring trust in Australia's financial system", Accessed March 10, 2019, https://treasury.gov.au/sites/default/files/2019-03/FSRC-Government-Response-1.pdf
[54] Australian Labor Party, "Labor's Response to the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry", Accessed March 10, 2019, https://www.alp.org.au/media/1567/190222-labor-royal-commission-response.pdf
[55] Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry, *Final Report*, (Canberra, Australian Government Publishing Service), https://www.royalcommission.gov.au/sites/default/files/2019-02/fsrc-volume-1-final-report.pdf, 26
[56] The Australian Government The Treasury, "Restoring trust in Australia's financial system", 14
[57] Australian Labor Party, "Labor's Response to the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry", 19-20
[58] Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry, *Final Report*, 29
[59] The Australian Government The Treasury, "Restoring trust in Australia's financial system", 18
[60] Australian Labor Party, "Labor's Response to the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry", 26

Insurance commissions also under threat

The Royal Commission's final report recommends that ASIC undertake its next review of conflicted remuneration "as expeditiously as possible" in 2021. What's more, it recommends that, unless a compelling reason for retaining commissions be found, the cap on life insurance commissions should be incrementally reduced to zero.[61] The Opposition stated it would implement this recommendation in full.[62]

In its response, the Coalition Government's agrees to conduct this planned review rapidly. It does not, however, commit to reducing the commissions cap to zero as a default position. The Coalition Government's response states that:

> If the review does not identify significant improvement in the quality of advice, the Coalition Government stated it would move to mandate level commissions, as was recommended by the Financial System Inquiry.[63]

It seems there is disagreement on whether insurance commissions should be abolished, or merely reduced.

A new disciplinary body

The Royal Commission's final report recommended that a central disciplinary body be set up to impose punishments on advisers when they fail to fulfil their legal duties. The final report is not specific on exactly how the body would work but does suggest that it should absorb the disciplinary roles currently undertaken by ASIC, adviser associations and the yet-to-exist FASEA code-monitoring bodies.

This body's purpose is not to be confused with that of the Australian Financial Complaints Authority (AFCA), who determine compensation payable to wronged clients. AFCA would continue to perform this role.[64]

In essence, all advisers would be required to subscribe to this disciplinary body individually. The body would gather information on the transgressions of an adviser through a system of mandatory and voluntary disclosures from a range of parties. Australian Financial Services (AFS) licensees would have to report certain information compulsorily, while members of the public could reach out to the body on a voluntary basis. AFS licensees would still be obliged to monitor and discipline their advisers, this body would provide an additional layer of oversight.

By requiring individual subscription to the body, each adviser would be responsible for their actions without having to start the regulatory system from scratch by introducing individual licensing.

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[61] Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry, *Final Report*, 188
[62] Australian Labor Party, "Labor's Response to the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry", 21
[63] The Australian Government The Treasury, "Restoring trust in Australia's financial system", 15
[64] Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry, *Final Report*, 216

The Opposition stated it would implement this recommendation in full.[65] By contrast, the Coalition Government's response to this recommendation was not entirely forthcoming. While agreeing to create a new disciplinary system, the response noted that ASIC would retain its current powers.[66]

Reference sharing

The Coalition Government also agreed to a recommendation in the Royal Commission's final report that the Australian Banking Association's (ABA) reference checking and information sharing protocol be made compulsory for all AFS licensees. This protocol lays out what information must be provided by an adviser's previous licensee to another licensee looking to employ that adviser.[67] This will mean that any compliance issues the adviser had at a prior licensee will be disclosed to the potential new licensee.

Lack of independence disclosure

Currently, the Corporations Act restricts which advisers and advice businesses can use the terms "independent", "impartial" and "unbiased". In a nutshell, the following advisers cannot use these terms, or terms that are similar:

- any adviser with a relationship or association with a product provider that could reasonably be expected to create a conflict of interest and exert influence on their decisions,
- any adviser who receives commissions or volume-based payments (even on life insurance), and
- any adviser who is restricted in the products they can recommend.[68]

The Royal Commission's final report recommends that any adviser who cannot use these restricted terms be required to provide a statement to each client outlining why they are not considered independent, impartial or unbiased.[69] The Coalition Government and Opposition have agreed to create a rule that would require such advisers to make this statement to any retail client in writing. [70] [71]

Supporting other reviews

The Royal Commission's report also includes some recommendations that support those previously identified by other bodies and reviews.

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[65] Australian Labor Party, "Labor's Response to the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry", 25
[66] The Australian Government The Treasury, "Restoring trust in Australia's financial system", 17
[67] Australian Banking Association, "Financial advice Reference Checking & Information Sharing Protocol", Accessed March 11, 2019, http://www.ausbanking.org.au/financial-advice/
[68] ASIC, "17-206MR ASIC clarifies its position on the use of "independently owned" under s923A", Accessed March 12, 2019, https://asic.gov.au/about-asic/news-centre/find-a-media-release/2017-releases/17-206mr-asic-clarifies-its-position-on-the-use-of-independently-owned-under-s923a/
[69] Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry, *Final Report*, 26
[70] Australian Labor Party, "Labor's Response to the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry", 17
[71] The Australian Government The Treasury, "Restoring trust in Australia's financial system", 13

The concept of a compensation scheme of last resort has been examined and re-examined since the St. John report rejected the need for one in 2012.[72] This time, the Coalition Government has agreed with the Royal Commission's recommendation to establish a forward-looking, industry-funded scheme. The Opposition have also agreed with the recommendation but will make its scheme retrospective, as well as forward looking. The scheme will be run through AFCA and will compensate consumers and small businesses who won a compensation ruling through a court, tribunal or AFCA but cannot be paid for various reasons.[73] [74]

The ungainly way in which employees are issued a default super fund, then collect funds over their working life, was highlighted in the Productivity Commission's report on efficiency and competition in the super industry.[75] The Royal Commission's recommendation to ensure a default super fund travels with the employee from employer to employer echoes the sentiments of this previous report.[76] The Coalition Government and Opposition expressed support for this recommendation in its response.[77] [78]

Mortgage brokers and financial planners

The Royal Commission's final report contains a number of recommendations that are designed to bring mortgage brokers under the same regulatory umbrella as financial advisers. This recommendation built on a theme established by the Productivity Commission in its report on Competition in the Australian Financial System.[79]

The Coalition Government's response, while agreeing to implement some of the changes, does not support this ultimate goal.[80]

The Coalition Government's response agrees to implement a best interests duty for mortgage brokers, as well as to review how brokers are remunerated. It does not, however, directly address this rather more pointed recommendation from the Royal Commission:

> After a sufficient period of transition, mortgage brokers should be subject to and regulated by the law that applies to entities providing financial product advice to retail clients.[81]

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[72] The Australian Government The Treasury, *Compensation arrangements for consumers of financial advice* (Canberra, Australian Government Publishing Service), http://futureofadvice.treasury.gov.au/content/consultation/compensation_arrangements_report/downloads/Final_Report_CACFS.pdf

[73] Australian Labor Party, "Labor's Response to the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry", 56

[74] The Australian Government The Treasury, "Restoring trust in Australia's financial system", 36

[75] Australian Government Productivity Commission, *Superannuation: Assessing Efficiency and Competitiveness*, 547-542

[76] Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry, *Final Report*, 30

[77] The Australian Government The Treasury, "Restoring trust in Australia's financial system", 18

[78] Australian Labor Party, "Labor's Response to the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry", 26

[79] Australian Government Productivity Commission, *Competition in the Australian Financial System* (Canberra, Australian Government Publishing Service), https://www.pc.gov.au/inquiries/completed/financial-system/report/financial-system-overview.pdf

[80] The Australian Government The Treasury, "Restoring trust in Australia's financial system", 6-8

[81] The Australian Government The Treasury, "Restoring trust in Australia's financial system", 6

In this case, it seems no response is a tacit rejection of the recommendation. While a financial adviser could still become a mortgage broker, the Coalition Government appears to prefer they be subject to separate regulatory regimes.

By contrast, the Opposition supports the recommendation to bring mortgage brokers under the same regulatory umbrella as financial planners, even if they do not intend to ban upfront commissions straight away.[82]

Royal Commission into Aged Care Quality and Safety

The Royal Commission into Aged Care Quality and Safety commenced hearings in early 2019 and will release an interim report by the end of October 2019 and a final report in April 2020.[83]

Terms of reference

On October 9, 2018, the terms of reference for the Royal Commission into Aged Care Quality and Safety were released. The terms of reference include:

- The quality of aged care services and whether they meet the needs of the people using them.
- The extent of substandard care, including mistreatment and abuse, and actions that should be taken in response.
- How to best deliver care services to people with disabilities (including younger people) in aged care facilities and those with dementia.
- The challenges and opportunities for delivering high quality care services in light of changing demographics and in remote and rural Australia.
- How the Coalition Government, industry and community can ensure high quality and safe services.
- How to centre services on the individual's needs and choices.
- How to provide care sustainably.

The early hearings have already highlighted the role financial advice plays in the aged care sector.

The adequacy of financial advice is not explicitly included in the terms of reference. That said, the early hearings have already highlighted the role financial advice plays in the sector, as well as the need for improved advice. The quotes below are from the Adelaide hearings:

> Selling of the family home is something that should be done in a considered way after financial advice. A lot of people don't take financial advice because they're making these decisions in a crisis. In fact, an Aged Care Financing Authority report referred to financing

[82] Australian Labor Party, "Labor's Response to the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry", 4-5
[83] Royal Commission into Aged Care Quality and Safety, "Home", Accessed March 14, 2019, https://agedcare.royalcommission.gov.au/Pages/default.aspx

> decisions about aged care frequently being made in the hospital car park. It's not an ideal context.[84]

Forward planning for care situations has also been highlighted as an issue:

> MR GRAY: Is it your opinion then that people should be encouraged to give forethought and planning to this topic so that it doesn't have to be a decision that's made in a rush during a crisis?
>
> DR NESPOLON: Absolutely. And that's – I think what I'm trying to say is that as GPs we try to prepare our patients for difficult parts of their lives and this is perhaps one of the most difficult parts of life.[85]

The time provided to care recipients to make large financial decisions, as well as the value of advice when making such decisions, is likely to be a recurring theme in the hearings. With limited regulation in this area, it is feasible that a large number of problems with the quality of advice relating to aged care may be uncovered by the Royal Commission.

As such, it is quite possible that the provision of financial advice relating to aged care may need greater regulation. Such regulation may occur through multiple mechanisms that, until now, have not been in place to protect consumers of aged care advice including express reference in the Corporations Act, specific regulation by ASIC and rules set by FASEA.

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[84] Auscript, "Transcript of Proceedings: Adelaide, 11 February, 2019", Accessed March 14, 2019, https://agedcare.royalcommission.gov.au/hearings/Documents/transcripts-2019/transcript-11-february-2019.pdf, 84
[85] Auscript, "Transcript of Proceedings: Adelaide, 18 February, 2019", Accessed March 14, 2019, https://agedcare.royalcommission.gov.au/hearings/Documents/transcripts-2019/transcript-18-february-2019.pdf, 373

Part 2 – 2030

As was established in Part 1, the changes confronting the advice industry are significant and wide-ranging. The challenge lies in understanding where these changes will leave the industry when they have all taken full effect. Part 2 of this paper will focus on what the financial advice industry will look like in 2030, in light of these reforms.

Towards 2030

Choosing a date more than 10 years hence allows enough time for the industry to have fully reacted and adjusted to each of the reform packages. It should be noted, however, that some of the sets of reforms will make their mark long before 2030. For example, the LIF reforms (in their current incarnation) will be 10 years in the past by 2030. By contrast, many of the Productivity Commission's recommendations relating to super will take far longer to be fully legislated and executed.

While some projections in this paper discuss the incremental changes that will occur between now and 2030, it is harder to predict the pace of change than it is the end result. Hence the focus is on the state of the industry in 2030.

Unless otherwise stated, the projections in this paper also presume that reform takes place largely in line with the various reviews, reports and reform packages described in Part 1.

Unless otherwise stated, the projections in this paper also presume that reform takes place largely in line with the various reviews, reports and reform packages described in Part 1.

It should be noted that some of the reform programs accounted for in this paper's projections are already enshrined in legislation and regulation. The LIF reforms, the FASEA reforms and elements of the retirement income reforms are already in place. Other amendments, such as those recommended by the Productivity Commission and Banking Royal Commissions, are, by and large, yet to be formalised. However, as it stands, the appetite for change in the advice industry amongst the political parties seems as strong as it has been in recent history.

Segmenting change

The financial advice industry has many and varied participants, from some of the country's largest organisations, to individual sole-trading businesses. As such, the projections in this paper are split into a range of different topics, including:

- The services advisers will provide to which clients,
- Who will want to become a financial planner,
- Who will run the licensees,
- Who will own financial advice businesses,
- Who will provide products, and
- What role will robo-advice and automation play.

Many of these topics will overlap. Accordingly, to get the full impact of the projections in this paper it should be considered in its entirety.

Advice services

Currently, financial advice revenue relies heavily on superannuation and retirement advice (a little under 35 per cent), loan and investment advice (26 per cent) and SMSF advice (over 20 per cent).[86] This is set to change dramatically by 2030, with different specialisations and crossover skills likely to become prominent.

Super in accumulation phase

The Productivity Commission called for an individual's default super fund to follow them from employer to employer.[87] The Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry agreed, referring to such a default fund as a "stapled" fund.[88] The Productivity Commission also recommended that the act of choosing a default fund be taken away from employers and given to an independent body. The independent body would create a 10-fund shortlist of approved default super funds.[89]

These changes will remove a significant component of financial planning for wealth accumulating clients – super fund consolidation and selection. "Stapled" default funds would almost eradicate the occurrence of clients holding multiple super accounts, thus ending the need for consolidation. Furthermore, outside of recommending a Self-Managed Super Fund (SMSF) for strategic reasons, it would take a brave planner to claim they could select a better fund for a client than the independent body solely charged with that job. Such a task is made even harder by the potential removal of the safe harbour steps from the Best Interests Duty (covered in the section below titled "Self Managed Super Funds").

The removal of such strategies leaves little a financial planner can do to assist accumulation clients with their retail superannuation. There would remain a few niche, or life-event dependent, strategies, and some advice relating to insurance in the fund.

The establishment of a body to choose default funds would also see an end to employer superannuation advice. With no need for an employer to choose a default fund, the role of advisers in helping make that decision would vanish. Planning businesses that focus on this style of advice have become rarer in the MySuper era, but would vanish entirely when the new default fund system commences.

Superannuation advice in pre-retirement and retirement

Pre-retirement, and retirement, planning in retail super will also shift by 2030. Treasury's position paper on the retirement income covenant makes it clear that the onus will be on a

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[86] Australian Government Productivity Commission, *Competition in the Australian Financial System Draft Report* (Canberra, Australian Government Publishing Service), https://www.pc.gov.au/inquiries/completed/financial-system/draft/financial-system-draft.pdf, 561
[87] Australian Government Productivity Commission, Superannuation: Assessing Efficiency and Competitiveness, 65
[88] Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry, *Final Report*, 251
[89] Australian Government Productivity Commission, Superannuation: Assessing Efficiency and Competitiveness, 65

client's super fund to help guide the client in planning their retirement income needs. The first principle of the retirement income covenant states:

> Trustees should assist members to meet their retirement income objectives throughout retirement by developing a retirement income strategy for members.[90]

Whereas currently modelling retirement savings needs is largely the job of a client's financial planner, this new principle places greater responsibility on the client's super fund. The Coalition Government's statements and Treasury's position paper don't make clear how this is to occur but it is likely to include the use of intra-fund advice and online tools.

Whereas currently, modelling retirement savings needs is largely the job of a client's financial planner, this new principle places greater responsibility on the client's super fund.

Furthermore, the provision of advice on choosing an income stream, and even on Centrelink eligibility, is to shift to the client's fund. Principles 2 and 7 of the draft retirement income covenant state:

> Trustees should assist members to meet their retirement income objectives by providing guidance to help members understand and make choices about the retirement income products offered by the fund.[91]
>
> Trustees may offer an alternate CIPR or another retirement income product to a particular person or cohort of people through any form of personal financial advice, including scaled personal advice, intra-fund advice, or full financial planning.[92]

The increased responsibility placed on super funds to help members plan the building of their retirement savings, as well as choose retirement income products, will further erode the ability of non-affiliated planners to provide advice relating to retail super. It does, however, have the potential to increase the intra-fund advice sector.

Self Managed Super Funds (SMSFs)

As noted earlier, currently SMSF advice makes up more than 20 per cent of advice revenue. With limited scope to recommend clients switch to a retail fund, SMSF recommendations will become more appealing to advisers.

That said, such recommendations will also face significant barriers. The Banking Royal Commission discussed abolishing the safe harbour steps that accompany the current Best Interests Duty:

> Another option would be to remove the safe harbour provision entirely. In my view, such a change would not be without merit. As I have said, the safe harbour provision currently has the effect that, in practice, an adviser is required to make little or no independent inquiry into, or assessment of, products. By prescribing particular steps that must be

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[90] The Australian Government The Treasury, *Retirement Income Covenant Position Paper*, 4
[91] The Australian Government The Treasury, *Retirement Income Covenant Position Paper*, 5
[92] The Australian Government The Treasury, *Retirement Income Covenant Position Paper*, 10

> taken, and allowing advisers to adopt a 'tick a box' approach to compliance, the safe harbour provision has the potential to undermine the broader obligation for advisers to act in the best interests of their clients.[93]

It should be noted that the Banking Royal Commission did not overtly recommend abolishing the safe harbour steps, however it does build on a theme established by the Productivity Commission in its final report on Competition in the Australian Financial System. The Productivity Commission expressed concerns around the adequacy of Approved Product Lists when researching which products can be recommended in a client's best interests. The natural extension of these concerns is to remove the current "reasonable investigation" step in the safe harbour provisions, and require advisers to conduct broader product research.

Such broader product investigations will be an additional challenge for an adviser recommending a SMSF. Iron-clad proof that an SMSF is in the client's best interests will need to be provided when all reasonably available alternatives are considered. Given that a 2018 ASIC review found that that 86 per cent of SMSF advice did not prioritise the client's interests as is, the challenge of meeting a tougher Best Interests Duty is significant.[94]

In addition to this, the Productivity Commission recommended extending the design and distribution obligations for product providers to SMSF advice. These obligations include:

1. Requiring offerors to make a target market determination. No determination would mean the product cannot be distributed.
2. Requiring offerors review target market determinations and adhere to those determinations.
3. Requiring offerors to maintain distribution information (including around complaints).[95]

These obligations will require any adviser who recommends a client commence a SMSF to establish further documentation. This documentation will need to identify the characteristics of a client for whom a SMSF would be appropriate. If the adviser then recommends a SMSF to a client not captured in their documentation, they may face penalties.

The Productivity Commission also specifically recommended advisers be able to justify why an SMSF is recommended for a client with a balance below $500,000.[96]

Super advice in 2030

The 35 per cent of advice revenue attributable to retail super advice will have all but dried up by 2030. Although the intra-fund advice sector will have grown significantly as the onus is placed on funds to assist their members prepare for retirement; it will largely be on a cost-recovery basis provided by super funds.

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[93] Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry, *Final Report*, 177

[94] ASIC, *SMSFs: Improving the quality of advice and member experiences*, https://download.asic.gov.au/media/4779820/rep-575-published-28-june-2018.pdf, 63

[95] Australian Government Productivity Commission, Superannuation: Assessing Efficiency and Competitiveness, 65

[96] Australian Government Productivity Commission, Superannuation: Assessing Efficiency and Competitiveness, 39

The incentive will be there for advisers to increase SMSF advice with retail super advice all but eliminated. That said, higher advice standards will crimp advisers' ability to make such recommendations where clear justifications for an SMSF are not present. As such, the revenue attributable to SMSF advice is likely to only be comparable to current levels in 2030.

Life insurance

Under the LIF reforms, the large upfront adviser commissions which previously characterised advice on life insurance are to be significantly reduced. What's more, the Banking Royal Commission recommended that ASIC consider abolishing commissions entirely when they review the impact of the LIF reforms in 2021.[97]

In ASIC's 2014 review of retail life insurance advice, ASIC found that 82 per cent of new intermediated life insurance policies paid the adviser via large upfront commissions.[98] By contrast, only 1 per cent of such policies were established with no commissions paid to the adviser.

The abolition of commissions on life insurance products would destroy the business model used by advisers recommending 99 per cent of intermediated life insurance policies.

As such, the abolition of commissions on life insurance products would destroy the business model used by advisers recommending 99 per cent of intermediated life insurance policies. While advice on life insurance products can still be provided on a fee-for-service basis, there is little evidence such a model would generate enough profit to sustain an advice business. Similarly, there is little evidence that as many consumers would be willing to pay upfront advice costs commensurate with the planner's efforts as are currently happy to pay the delayed costs provided by the commission-based model. If anything, research has shown upfront fees to be a disincentive to consumers.[99]

When this complete transformation of the industry is combined with the significant education and training requirements currently being overseen by FASEA, it is fair to wonder how many advisers who currently specialise in life insurance advice will remain in the industry in 2030.

Life insurance advice in 2030

Proactive recommendation of life insurance by advisers will have significantly reduced by 2030. Only clients with strong cash-flow who can afford upfront advice fees will receive such advice from their planner.

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[97] Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry, *Final Report*, 189

[98] ASIC, *Review of retail life insurance*, https://download.asic.gov.au/media/2012616/rep413-published-9-october-2014.pdf, 27

[99] Marc M. Kramer, "The impact of the commission ban on financial advice seeking", https://efmaefm.org/0EFMAMEETINGS/EFMA%20ANNUAL%20MEETINGS/2018-Milan/papers/EFMA2018_0294_fullpaper.pdf

Online advice tools, such as insurance needs calculators and policy comparison sites, will have steeply risen in availability and popularity. Lower-means consumers will likely have insurance promoted to them through avenues no longer encompassed by the term “financial advice”.

Investment and lending advice

Investment advice faces fewer headwinds than super or insurance advice. That said, the removal of the safe harbour steps from the Best Interests Duty will increase the burden of proof on advisers when justifying their investment recommendations.

With the reduction in other advice areas, opportunities to expand services around investment advice is an area of potential growth for advisers. Providing advice on direct investments, such as property and shares, is a natural extension for advisers who target high net wealth individuals. Crossover specialisation, such as financial adviser/property buyer’s agent or financial adviser/stockbroker, will become more appealing to advice professionals.

Similarly, provision of advice on debt, including mortgage debt, is another opportunity for advisers. The opportunity currently exists for financial planners that target younger clients to diversify their focus to include mortgage advice. This can be achieved by planners becoming qualified mortgage brokers. The current education requirements are only at a Certificate IV level[100], a course that can be completed in as little as a week. The required alignment of an adviser to an Australian Credit Licensee (ACL) is a greater challenge – although far from insurmountable.

The Banking Royal Commission recommended that mortgage advice come under the umbrella of financial planning.[101] This would make it even easier for advisers to expand their services into mortgage broking.

Investment advice in 2030

The provision of specialist investment advice, particularly to high net wealth clients, will grow by 2030. Advisers targeting this demographic will diversify their skillsets to provide more personalised advice.

The delineation of mortgage brokers and financial planners will be gone by 2030. The provision of lending advice will become a staple of planners targeting a broader client base.

Other advice areas

A significant reduction in the revenue able to be generated through superannuation and insurance advice is going to see advisers and advice businesses look to focus on other advice areas.

To date, product-driven advice has dominated financial planning. The only non-product advice area that was identified in the Productivity Commission’s draft report as accounting for more

[100] Mortgage and Finance Association of Australia, “New Membership Categories & Requirements”, https://www.mfaa.com.au/join-renew/new-membership/categories-requirements
[101] Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry, *Final Report*, 21

than 10 per cent of advice revenue was tax-related advice.[102] Such product agnostic advice is set to increase in importance.

Aged care

The need for sound, holistic advice for those entering aged care is already becoming evident in the early hearings of the Royal Commission into Aged Care Quality and Safety. The demographics of the Australian population make an increase in the need for aged care, and advice thereon, inevitable. The Australian Bureau of Statistics project the proportion of Australians aged 65 and older projected to increase from 15 per cent to 23 per cent over the next 50 years.[103] Furthermore, research by the CSIRO and Monash University projected health costs incurred annually by Australian to almost double between 2015 and 2035.[104]

Financial counselling

Financial counselling, or cashflow analysis, also has the potential to become more prevalent. Almost every contemporary financial planning model already includes cashflow analysis as a core element, however in the product-driven environment, it has often been an afterthought.

Almost every contemporary financial planning model already includes cashflow analysis as a core element, however in the product-driven environment, it has often been an afterthought.

Genuine and deep analysis of a client's income and expenses, including granular transaction analysis, stands to become a major, billable service that financial planners can provide to a wide range of clients. To some degree, banks have already identified this opportunity, and provide such analysis on their online banking systems. Without a reliable, strategic analyst to help decode that information though, clients are only receiving a fraction of the help they need.

Such a service would be enhanced if the adviser providing it could provide direct advice on debt. Currently that would require authorisation under an Australian Credit Licence[105] however, with the Banking Royal Commission's recommendation to align mortgage broking and financial planning regulation, this could change.

Other advice areas in 2030

Specialist advice, such as in relation to aged care, as well as generalist advice, such as cash-flow analysis, will both have greater prominence in 2030. Advisers and advice businesses currently focused on product-driven recommendations will need to branch out into these areas in order to maintain an appealing service proposition for their clients.

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[102] Australian Government Productivity Commission, Competition in the Australian Financial System Draft Report, 561

[103] Australian Bureau of Statistics, "Population Projections, Australia, 2017", https://www.abs.gov.au/ausstats/abs@.nsf/0/5A9C0859C5F50C30CA25718C0015182F?Opendocument

[104] Anthony Harris and Anurag Sharma, "The Future of Health and Aged Care Expenditure in Australia", Monash University, https://australiancentre.com.au/publication/future-health-aged-care-expenditure-australia/

[105] ASIC, "Do you need a credit licence?", https://asic.gov.au/for-finance-professionals/credit-licensees/do-you-need-a-credit-licence/

Ongoing versus transactional advice

Two of the Banking Royal Commission's central recommendations are the ending of grandfathered conflicted remuneration arrangements and the inception of annual opt-in requirements for all financial planning clients. These changes will have some major impacts on advice services.

Fee sensitivity

A key plank of the pro-commission argument is that third-party commissions wrapped up in fees or costs concern consumers less than fees they pay directly to a third-party, such as an adviser. Such an argument is supported by a Dutch study which compared the impact of paying advice via upfront fees, versus via commissions.[106]

As such, it is reasonable to conclude that a significant number of planning clients who currently have grandfathered commissions paid to their adviser will not pay similar amounts directly. The outcome will be that far fewer clients will opt to receive ongoing advice. This trend will be exacerbated by two factors:

1. the opt-in requirements for ongoing fees becoming annual, rather than the current two-yearly arrangement, and
2. The continuing non tax-deductibility of upfront advice fees.

Paying ongoing fees directly will be more palatable to high-net wealth clients than those with little disposable income and few investable assets. As such, clients will be broadly split into two categories:

1. Transactional clients (likely to be those of lower means)
2. Ongoing clients (likely to be those of higher means)

Advice services in 2030

Bringing all this analysis together paints a picture of an adviser service landscape split into three broad models:

1. High net worth investment advisers with ongoing client relationships. This includes the potential to have some high-value transactional services, such as property buyer agency or stockbroking, as well as SMSF specialisation.
2. Transactional, broad-based advisers. May include some short to medium-term recurring services, such as financial counselling, as well as non-traditional transactional services, such as mortgage broking.
3. Aged care adviser specialisation. May include some additional specialised services such as estate planning and some ongoing investment management for high net wealth clients.

The services that drive adviser revenue in 2030 will be significantly different from the current situation. With the abolition of commissions, and a shift away from advisers being a distribution channel for products, overall revenue is likely to also drop significantly before new sources of revenue are incorporated by 2030.

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[106] Marc M. Kramer, "The impact of the commission ban on financial advice seeking"

Overarching these three new models will be a rise in intra-fund advice. With super funds being made responsible for guiding members in the pre-retirement and retirement phases, more and more advisers will need to be engaged by the funds. Whether these advisers are salaried employees, or are contracted by the funds to provide the service, their revenue model will be entirely different from those providing direct, personal advice.

Advisers

Current state

According to the Banking Royal Commission, there were 25,386 financial advisers registered in Australia in April 2018.[107] These advisers tend to be advanced in their working lives, with the average and median ages of financial planners in Australia being estimated in a range that extends from a little under 50[108] to as high as 57[109]. Based on analysis of data from ASIC's Financial Adviser Register, the average time an adviser has been licensed in Australia is 4.61 years with the median time being 2.74 years.

Based on analysis of data from ASIC's Financial Adviser Register, the average time an adviser has been licensed in Australia is 4.61 years with the median time being 2.74 years.

The median tells us that a very large number of inexperienced planners are offset the still significant number of highly experienced planners in the statistics. In fact, most experienced 1,000 planners have been in the industry at least 15 years.[110]

Departing advisers

There has been a great deal of commentary on the impact the FASEA-managed, Professional Standards of Financial Advisers reforms will have on adviser numbers. Adviser Ratings' analysis of ASIC's Financial Adviser Register data showed that around 45 per cent of advisers do not have a highest qualification at Bachelor's degree level or higher – even when certain industry designations are considered to be above Bachelor's degree level.[111] It is clear that meeting the minimum FASEA qualification benchmark will require significant work for much of the existing adviser base.

[107] Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry, "Some Features of the Australian Financial Planning Industry", https://financialservices.royalcommission.gov.au/publications/Documents/features-of-the-australian-financial-planning-industry-paper-6.pdf, 7

[108] Hope William-Smith, "Call for younger advisers under median age of 50", Money Management, Accessed March 28, 2019, https://www.moneymanagement.com.au/news/financial-planning/call-younger-advisers-under-median-age-50

[109] Simon Hoyle, "Financial planning on the cusp of transformation", Professional Planner, Accessed March 28, 2019, https://www.professionalplanner.com.au/2016/11/interview-financial-planning-on-the-cusp-of-transformation/

[110] Australian Government data.gov.au, "Financial Adviser Dataset – Current", Accessed March 29, 2019, https://data.gov.au/dataset/ds-dga-f2b7c2c1-f4ef-4ae9-aba5-45c19e4d3038/distribution/dist-dga-2156cb99-3358-4847-8b5b-fcd2f0d3c4e2/details?q=

[111] Adviser Ratings, "2018 Australian Financial Advice Landscape", 20

A mass exodus of advisers has been widely predicted. That said, the predicted size of this exodus varies widely, from an attrition rate of over 75 per cent[112] to a far lower rate of around 20 per cent.[113] Each example of a poll or survey of adviser intentions has its own flaws and biases, making it very hard to predict a likely outcome with great certainty. It seems probable that the eventual reduction in numbers will be somewhere between 35 and 50 percent at the peak, resulting in an eventual adviser population of between 12,500 and 15,000.

CoreData produced a report in October 2018 which clearly identified that advisers' level of desire to leave the industry was split along age demographics. More than half of advisers aged 60 or older surveyed planned to leave the industry in the next five years. This percentage fell in each 10-year age bracket, down to less than 5 per cent of advisers in their thirties, and almost no advisers in their twenties, planning to exit the industry.[114]

The upshot is that adviser numbers can be expected to drop significantly in the short term, led by the large departure of older planners and that the average age of planners will reduce significantly.

Career-changers

To date, a large number of new financial planners have been career-changers, pursuing planning after having worked in other industries. This can be seen by comparing the average age of advisers (in their 50s) to the average time spent as a licensed planner (a little over four and a half years). This prevalence of career changers has been made possible by financial planning's low educational barriers to entry, and the short time it took to generate significant revenue.

In some cases, as little as two diploma-level subjects needed to be completed in order to gain authorisation. Along with this quick retraining, new planners could purchase existing books of clients that generated large, reliable ongoing commission revenues immediately.

The Professional Standards of Financial Advisers reforms have raised the barriers to entry significantly. From January 1, 2019, new planners need to pass a lengthy exam, undergo a professional year and earn a bachelor's degree or higher to become fully authorised.[115]

Furthermore, the abolition of grandfathered commissions, and the Banking Royal Commission's recommendation to reconsider commissions on life insurance, will completely change the revenue profiles of financial planning businesses. "Passive" commission-based income will be replaced by ongoing income, or new upfront income, that will need to be actively retained and generated by any purchaser of an existing client base. This active revenue will not be able to be generated by a new planner during their professional year as they are restricted as to what advice they can provide unsupervised.

These changes will mean that career-changers who are looking for an easy, profitable transition to a new industry will no longer find what they are looking for in financial planning. Undoubtedly

[112] Killian Plastow and Aleks Vickovich, "Research confirms adviser exit fears", ifa, Accessed March 20, 2019, https://www.ifa.com.au/news/18788-research-confirms-adviser-exit-fears
[113] Simon Hoyle, Young and old: FASEA's great divide, Professional Planner, Accessed March 20, 2019, https://www.professionalplanner.com.au/2018/11/faseas-impact-coming-into-view/
[114] Simon Hoyle, Young and old: FASEA's great divide
[115] Parliament of Australia, Corporations Amendment (Professional Standards of Financial Advisers) Act 2017

some career-changers will still come to financial planning, but to do so they will need more than an entrepreneurial drive and they must be willing to accept lower initial pay.

University graduates

The requirement for new advisers to have a bachelor-level degree has led universities to create degrees majoring in financial planning in large numbers.[116] While there is little enrolment data to examine at this point, it is reasonable to expect that a steady stream of graduates from these financial planning degrees will hit the industry in the next three to five years. These graduates will slowly populate the industry, starting in junior positions and working their way through to senior planning roles.

These university graduates are likely to also start to meet the demand for greater intra-fund advice roles. Research has found millennials to be less entrepreneurial than previous generations[117], and a salaried intra-fund advice career path seemingly suits this characteristic.

Advisers in 2030

The number of advisers in the industry in 2030 will be lower than is currently the case. The exodus of the early 2020s will not have been fully reversed, however a steady flow of new, younger advisers will see the numbers back above 20,000.

The Professional Standards of Financial Advisers reforms will reduce the competition in the advice marketplace, but the post-Banking Royal Commission and Productivity Commission reforms will shrink the size of the marketplace.

This lower baseline of adviser numbers will reflect the reduced areas in which advice can be provided to middle Australia in 2030. Advice on non-SMSF super will be largely the preserve of the super funds and insurance advice will be a very small fraction of total advice provided. The Professional Standards of Financial Advisers reforms will reduce the competition in the advice marketplace, but the post-Banking Royal Commission and Productivity Commission reforms will shrink the size of the marketplace.

Licensees

Australian Financial Services (AFS) licensees perform a vital role in the advice industry. They are responsible for a range of compliance activities, including the monitoring and supervision of the advice provided to clients. The regulators rely heavily on licensee reporting when policing the industry.[118] There had been some speculation that the Banking Royal Commission would recommend an end to the licensee/authorised representative model[119], however that was not the case.

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[116] Corporations (Relevant Providers Exams Standard) Determination
[117] Stephen Harrison, "Start-Ups Aren't Cool Anymore", The Atlantic, Accessed March 21, 2019, https://www.theatlantic.com/business/archive/2018/12/milennial-start-up/567793/
[118] ASIC, "Your ongoing AFS licence obligations", Accessed March 22, 2019, https://asic.gov.au/for-finance-professionals/afs-licensees/your-ongoing-afs-licence-obligations/
[119] Matthew Smith, "Death of the licensee as we know it", Professional Planner, Accessed March 22, 2019, https://www.professionalplanner.com.au/2018/08/death-of-the-licensee-as-we-know-it/

According to the Banking Royal Commission's background paper, in October 2017, 44 per cent of advisers operated under licences controlled by one of the 10 largest institutions. That said, the vast majority of licensees were small operations, with 78 per cent of licensees having less than 10 advisers each.[120]

Vertical integration, or product providers owning financial planning businesses or operating aligned AFS licences, has been the predominant model of licensee/adviser relationship. That said, some of the largest organisations have already shown their concerns about the vertically integrated model of financial advice, with five major institutions selling, or attempting to spin off, their wealth arms. While this strategy is not universal, and bank sentiments around wealth businesses tend to fluctuate, it does signal a significant redistribution of aligned advisers.

It seems likely that these divested and sold former-bank businesses will retain some salaried and aligned planners as a direct connection to their customers. As retail superannuation product advice becomes less prevalent, such arrangements will focus more on straight investment and, in the short term, some insurance product advice. Other specialist services, such as Self Manager Super Fund (SMSF) advice, may also come to the fore.

Smaller, or more boutique, wealth management businesses who employ a vertically integrated structure, commonly involving an in-house or white-labelled investment platform or Managed Account product, loom as another likely licensing solution for planners leaving institutional licensees. Such models are already common in firms that target high net wealth clients and seem set to see a growth in numbers.

The challenge for vertically integrated businesses, be they small, medium or large, will be to make retaining Australian Financial Services (AFS) licensee responsibilities worth their while.

Licensing and licensee costs to rise

The reduced involvement of Australia's largest financial institutions as AFS licensees will also see a rise in both fees paid by advisers to their licensee, and the costs paid by the licensee themselves.

Large, vertically integrated institutions have traditionally absorbed a significant portion of the costs associated with being a licensee.[121] These costs have been defrayed by the fees collected from adviser-recommended insurance, superannuation and investment products owned and managed by the institutional licensee. Large institutions also benefit from economies of scale when it comes to compliance operations. As such, the true cost of licensee services is significantly higher than those historically paid by planners.

Vertical integration will remain, however the average size of the vertically-integrated organisations will reduce. As such, small-to-medium vertically integrated businesses will likely still see some value in absorbing some licensing costs for their planners, but it will not be on the same scale as has been the case previously.

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[120] Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry, "Some Features of the Australian Financial Planning Industry", 3

[121] Steve Thomson, "Are dealerships dead?", TIQK, Accessed March 22, 2019, https://tiqk.com/2019/01/16/are-dealerships-dead/

Businesses that exist solely as non-integrated AFS licensees have traditionally struggled to turn a profit. Commonly, the financial beneficiaries of financial planning businesses (other than clients) have been the advisers themselves and the product manufacturers the advisers recommend clients use. This is fine in small firms where the owners are also advisers and thus still generate reasonable income. With vertical integration still present, it is hard to see how a larger non-integrated licensee could provide a competitive licensing cost to attract advisers, while still generating a reasonable profit for the owners.

This issue is exacerbated when the Banking Royal Commission's commentary on ASIC's enforcement regime is considered. In its final report, the Banking Royal Commission was critical of ASIC's reluctance to pursue poor behaviour through the court system. With ASIC taking this criticism on-board, a sharp rise in legal costs across the financial planning industry is coming. A spike in group actions by disgruntled clients against large institutions exacerbates these rising costs. A resulting increase in the cost of Professional Indemnity insurance is inevitable. This all adds up to a further increase in the costs of AFS licensing.

The Banking Royal Commission also placed greater onus on the executives of large institutions to ensure their businesses adhere to the letter of the legislation and regulation. In response, larger organisations will likely instil a more risk averse culture with far less flexible product and service development and delivery.

The model used by larger licensees to collect licensing fees from planners will also change. In many organisations, the cost of providing licensee services has been recouped via commission splits. In a commission-less environment, this will no longer be the case. Licensees will need to ensure similarly reliable cost recovery mechanisms are put in place, such as upfront advice payment splitting. Licensees will need to implement intelligent processes to avoid becoming debt collectors.

Reducing AFS licensee costs

With a greater onus on the financial sustainability of AFS licensee models, reducing operating costs is likely to become of pressing importance.

Many more advisers will be licensed under small-to-medium vertically-integrated organisations. These will be complemented by a rise in small, non-integrated licensees that are owned and operated by the advisers themselves.

AFS licensees' conducting compliance operations in an efficient manner has long been the holy grail of dealer groups. Using humans to conduct full vetting, investigation, auditing and remediation operations adds significantly to the cost of running an AFS licensee.

Automated systems to assist in identifying non-compliant, or potentially concerning, advice documents have been under development for some years.[122] The use of

[122] Alice Uribe, "Promontory says AI for banking compliance 'a long game', Australian Financial Review, Accessed March 23, 2019, https://www.afr.com/business/banking-and-finance/promontory-says-ai-for-banking-compliance-a-long-game-20180306-h0x2kc

such systems, along with the industry-wide adoption of online Client Management Systems, has the potential to significantly reduce the costs licensees incur to undertake compliance operations.

The past few years have also seen a rise in dealer services firms. Such firms provide a range of outsourced services, such as document creation, representative monitoring, training, and compliance manual creation. By outsourcing such required operations, small to medium licensees will benefit from the economies of scale previously only available to larger groups.

Licensees in 2030

The number of advisers operating under licensees operated by the 10 largest financial institutions will drop significantly by 2030, but not disappear completely. Barring further reform, the proportion of advisers licensed under such firms will drop below 20 per cent.

Many more advisers will be licensed under small-to-medium vertically-integrated organisations. These will be complemented by a rise in small to medium, non-integrated licensees that are owned and operated by the advisers themselves.

The final style of licensee that will be more prominent in 2030 are those that provide intra-fund services for the “best in show” super funds. It is likely that the big super funds will keep these licensees in-house.

Planning business owners

There are many models of financial planning business ownership in Australia. In some cases, the owner and the licensee are the same entity. According to Adviser Ratings, in 2018 12 percent of advisers were employed by institutionally owned licensees, and a little under half worked for privately owned licensees with no institutional licensee affiliation. The remainder, almost 40 per cent of advisers, worked for businesses not owned by a large institutional licensee, but still affiliated with one.[123] Such arrangements were referred to as “aligned” in the section titled “Licensees”. In this section they are considered privately owned.

When looking at privately owned planning businesses, the value of ongoing revenue will have a major impact on the appeal of purchasing such a business, as well as the viability of existing businesses. Business broking firm, Radar Results, tracks and publishes the ongoing value of various types of financial services businesses including; ongoing financial planning, mortgage broking and accounting revenue. According to their statistics, in the three years since 2016 the value of all manner of financial planning revenues has been declining.[124]

Business values for privately owned businesses

Commission revenue from under-55 insurance clients has fallen from a multiple range of 3.3 - 3.5 to 2.5 - 3.0, Fee-for-service revenue for pre-retiree clients has dropped slightly from a

[123] Adviser Ratings, “2018 Australian Financial Advice Landscape”, 13
[124] Radar Results, “Price Guide”, Accessed March 23, 2019, http://www.radarresults.com.au/price-guide/

multiple range of 2.5 - 3.0 to 2.5 - 2.8 and grandfathered commission revenue has dropped from a multiple range of 2.0 - 2.5 to 1.0 - 1.5.[125]

Falling asset-based revenue multiples during the Global Financial Crisis (GFC) caused many business owners who had leveraged to buy a book of clients significant financial stress. Purchasers who paid multiples of 3.5 to 4.0 found their effective purchase multiple closer to 7.0 after the clients' asset values had been halved by falling markets.[126] The fall in clients' assets also started the trend in falling revenue multiples as buyers became more cautious.

With business values falling again, this time mainly due to declining multiples rather than market corrections, history is set to repeat itself. Planners who borrowed heavily to purchase their client bases in the past five years are going to find it difficult to service their loan. This will be particularly severe where the value of the business was reliant on revenue streams that are either confirmed to cease, such as grandfathered commissions, or look likely to cease pending further review, such as insurance commissions.

Those survivors of the GFC who held on, hoping to rebuild the value of their businesses, will likely not be able to survive this, subsequent decline in value. Falling revenue multiples combined with loss of traditional revenue sources and dramatically increased education and training standards will be a bridge too far for many.

Institutional ownership and affiliation

It seems unlikely that the largest institutions (including the high-street banks) will cease their salaried financial planning operations entirely. The value of having in-branch advisers to service bank clients will still be significant. It is likely that in-branch advice models will look to diversify the skillset of their planners to encompass more traditional bank products, such as mortgages.

Some other, non-bank, large investment institutions will also look to retain their in-house financial planning arms to service high net wealth, investment-focused clients. The safest way to attract and retain such clients will still be through personal planning services that trade on the brand value of the institution.

Businesses affiliated to a large institution are the model of planning business most under threat. This ownership model dropped from employing over 50 per cent of advisers in 2014, to less than 40 per cent in 2018.[127] This trend will accelerate as such arrangements lose value to the institutions in an environment no longer dominated by product-driven advice.

Finally, intra-fund advice requirements will necessitate either the retention of internal planning capabilities by super funds, or the engagement of outsourced planning businesses.

Ownership of planning businesses in 2030

The number of in-branch, bank-salaried financial planners will reduce slightly from current numbers by 2030, but will still be a presence in the marketplace. Planning businesses owned by

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[125] Radar Results, "Price Guide"
[126] Radar Results, "Financial planning valuations – History is not a good guide", Accessed March 23, 2019, http://www.radarresults.com.au/financial-planning-valuations-history-is-not-a-good-guide/
[127] Adviser Ratings, "2018 Australian Financial Advice Landscape", 13

large investment institutions will have dropped significantly in number, but will also still be a relevant sector – particularly in relation to high net worth clients. In both cases, the pure profitability of the advice business will remain secondary to the overall strength of client relationships and the profitability of the institutions' vertically integrated wealth arms.

Intra-fund advice businesses will have grown by 2030. Some funds will retain this function in-house whereas others will outsource it to specialist intra-fund advice firms.

Privately owned businesses will look very different in 2030. According to Radar Results' data, the revenue multiple range for accounting clients is 0.5 to 0.9 for individuals and 0.75 to 1.2 for businesses[128]. By 2030, with all financial planning clients required to opt into their fees each year and no passive income trails from commissions, similar revenue multiples will apply to planning clients.

This drop in value will have opened up opportunities for new, younger planners to buy books of existing fee-for-service clients in a more sustainable fashion. The obverse of this being that some existing planners will be hurt by this realignment of value. The preference of new planners for avoiding affiliation with large institutions, along with dwindling opportunities to do so, will mean a lower proportion of businesses affiliated with large institutions. That said, privately owned businesses with affiliation to a boutique, or smaller, investment platform or Managed Account service will be more common.

Product providers

The products recommended by financial advisers are many and varied. That said, according to the Productivity Commission, well over 80 per cent of adviser revenue is generate in relation to three main categories of product; superannuation and retirement, life insurance and investment.[129] The future of each of these product types will be shaped uniquely by different sources of change.

Superannuation products

In its final report on efficiency and competition in the superannuation industry, the Productivity Commission made three groups of recommendations that will dramatically alter the shape of the superannuation product marketplace.

These recommendations combine to make running a superannuation product unattractive to any for-profit organisation.

The first group of recommendations concern default superannuation. Primarily, the recommendation that all employees without an existing super account be defaulted into one of a ten funds from a "best in show" list. Such a policy will whittle down the available superannuation fund options. A fund not on the "best in show" list will likely see their inflows of new members all but cease, costing them the economies of scale that come with a large member-base. The report identifies that competition

[128] Radar Results, "Radar's Price Guide"

[129] Australian Government Productivity Commission, Competition in the Australian Financial System Draft Report, 561

needs to be maintained throughout the selection process, however the very process itself is antithetical to the promotion of competition.

The second group of recommendations aim to ensure consistent performance of those superannuation products that are available. The report recommends that each default and choice super fund stay within a narrow band of investment returns centred on a set of market indices. This compulsory benchmarking against indices will effectively see the end of active investment in retail super. The risk a fund would absorb in trying to outperform an index would be far too great, as the downside risk would be banishment from the marketplace. This would mean that the only active investment option through superannuation would be through a Self Managed Super Fund.

The third group of recommendations concern fees charged by default and choice superannuation products. The report states:

> Because super funds are legally obliged to act in members' best interests, the fees they charge should not exceed cost recovery levels.[130]

These three groups of recommendations combine to make running a superannuation product unattractive to any for-profit organisation. If there is no positive revenue to be generated from fees, and the investment options are supposed to be low-cost and effectively track indices, what incentive does the private sector have to run retail superannuation products?

By contrast, Self Managed Super Funds will provide consumers (and their advisers) with far greater flexibility. It is likely that their popularity, and the range and availability of products designed to service SMSFs, will increase significantly.

Life insurance products

The array of reviews, reports and reforms will affect insurance product providers in a very different way to providers of superannuation products. The main change will be to the distribution model for life insurers.

In a 2018 report into direct life insurance, ASIC found that over 90 per cent of life insurance in Australia was established through an intermediary – commonly a financial adviser.[131] Commissions paid to the adviser have been the main revenue incentive in 99 per cent of these cases.[132]

The Banking Royal Commission's recommendation that life insurance commissions be reviewed in 2021 with an eye to their abolition looms as a significant threat to this current distribution model for life insurance. While some advisers will retain a fee-for-service insurance advice model, such a model does not have a large precedent of success in Australia. As such, it is likely that insurers will look to other distribution sources to make up for the drop in adviser-intermediated sales.

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[130] Australian Government Productivity Commission, Superannuation: Assessing Efficiency and Competitiveness, 40

[131] ASIC, "The sale of direct life insurance", Accessed March 23, 2019, https://download.asic.gov.au/media/4853336/rep587-published-30-august-2018-1.pdf

[132] ASIC, "Review of retail life insurance advice", 27

Finding other distribution sources will be a challenge for insurers, as the Banking Royal Commission also recommended a ban on the hawking of insurance. It is likely that solutions will come from such sources as intelligent direct marketing, robo-advice products and consumer-driven information sources (such as comparator sites).

Investment products

The Australian Bureau of Statistics (ABS) lists the consolidated assets of managed funds in Australia as $2.79 trillion as at December 2018. The ABS notes that over 80 per cent of these assets are attributable to superannuation funds.[133]

Non-superannuation investments have few significant threats from the reviews, reports and regulation confronting the financial services industry. If anything, recent legislative changes limiting the size of income streams payable from super and reducing superannuation contribution caps will likely increase the flow of funds invested outside of super by higher net wealth individuals.

That said, the investment management of superannuation savings makes up the vast majority of the managed fund industry. This will be heavily impacted by the recommendations of the Productivity Commission. The investment benchmarking recommended by the Productivity Commission will force virtually all retail super funds to ensure their investment options track indices.

Indexed managed funds generally have a far lower management fees than managed funds that are actively invested with an eye to outperforming an index.[134] To some degree, this reflects the lesser expertise and manpower required to manage an investment that simply tracks an index. With over 80 per cent of the money invested in the Australian managed funds industry to be required to track indices, the size and complexity of the fund managers offering products that serve super funds are set to shrink significantly. This will shape the industry going forward.

Product providers in 2030

The number of retail super funds available in 2030 will have shrunk significantly. There will be few, if any, funds that are not on the "best in show" list. Those funds that do still exist will be run on a cost recovery basis, meaning for-profit organisations will not have little presence in the marketplace. The descendants of industry funds, as well as Government funds, will make up the vast majority of super funds available.

The size of the businesses providing managed fund products will have reduced, however, with the reduced demand for actively invested products.

In 2030, life insurance products will, by and large, still exist as they do now (with some product evolution from their current state). What will change is how they are distributed by insurers. Financial advisers will have a far smaller role in the life insurance market. Most

[133] Australian Bureau of Statistics, "5565.0 – Managed Funds, Australia, Dec 2018", Accessed March 23, 2019, http://www.abs.gov.au/ausstats/abs@.nsf/mf/5655.0
[134] Vanguard, "Compare index vs. actively managed funds", Accessed March 23, 2019, https://investor.vanguard.com/mutual-funds/index-vs-active

policies will be sold through robo-advice tools and product comparators, advertised through traditional media as well as new and social media.

The volume of money invested through managed funds will have grown by 2030, with the increase in retirees drawing down on their super savings offset by the scheduled increase in compulsory super rates. The size of the businesses providing managed fund products will have reduced, however, with the reduced demand for actively invested products.

Automation and robo-advice

Robo-advice is a term that has expanded in scope in recent years. Previously, robo-advice was used primarily to describe automated investment selection and management services of varying sophistication.[135] The term's application has expanded, however, to include any automated advice service. That said, in Australia robo-advice is still primarily used to assist in investment management and with general insurance needs.

Opinions as to which demographics seek robo-advice vary, from millennials[136], to baby boomers[137], to women[138], to high net worth clients[139]. While there is no shortage of conjecture, robo-advice in Australia is still very new, and reliable statistics are not readily available. The one thing most commentary can agree upon is that robo-advice is growing.[140]

Robo-advice is not just for product-to-consumer relationships. Robo-advice is also used in intermediated services, where robo-advice tools are employed by an adviser to assist their clients.[141] While non-intermediated robo-advice provides a more cost-effective option for clients with smaller investment portfolios, it seems that the human touch is still widely desired and considered of value for those who can afford it.

As such, the future of robo-advice and automation has multiple paths, including:
- Product-to-consumer advice,
- Augmenting adviser-to-consumer recommendations,
- Benefitting from adviser-to-consumer referrals, and
- Streamlining adviser compliance processes.

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[135] Deloitte, "The expansion of Robo-Advisory in Wealth Management", Accessed March 24, 2019, https://www2.deloitte.com/content/dam/Deloitte/de/Documents/financial-services/Deloitte-Robo-safe.pdf, 2

[136] Chris Pash, "Australian millennials have taken to robo financial advice", Business Insider, Accessed March 24, 2019, https://www.businessinsider.com.au/australian-millennials-robo-financial-advice-2018-4

[137] Alice Uribe, "Robo advice goes for cashed up boomers over millennials", Australian Financial Review, Accessed March 24, 2019, https://www.afr.com/business/banking-and-finance/roboadviser-goes-for-cashedup-boomers-over-millenials-20180802-h13gy1

[138] Nina Hendy, "Women shun financial advisers in favour of money advice from robots", Sydney Morning Herald, Accessed March 24, 2019, https://www.smh.com.au/money/investing/women-shun-financial-advisers-in-favour-of-money-advice-from-robots-20181026-p50c9x.html

[139] Lisa Wright, "Robo advisors now seeking high net wealth clients", The Star, Accessed March 24, 2019, https://www.thestar.com/business/wealth/2017/04/03/robo-advisors-now-seeking-high-net-worth-clients.html

[140] Adviser Ratings, "2018 Australian Financial Advice Landscape", 10

[141] Hannah Wootton, "Advisers with robo capabilities will have the edge", Money Management, Accessed March 24, 2019, https://www.moneymanagement.com.au/news/financial-planning/advisers-robo-capabilities-will-have-edge

Product-to-consumer advice

The origins of robo-advice, as a way to match consumers to suitable investment products, will continue to grow in relevance in the future. In Australia, the opportunity to expand robo-advice's recommended product set from investments, to life insurance and super and retirement products is on the immediate horizon.

The looming review, and likely banning, of commissions-based life insurance advice will open up a need for insurers to find new distribution arms. Comparator sites are already common in the general insurance advice industry and are becoming more prevalent in life insurance. Tools to help consumers determine their insurance needs are also now available[142] and it will not be a great leap for such tools to include data-analysis to assist consumers determine what features, benefits and variables their policies should include.

The implementation of the retirement income covenant will place far greater responsibility on super funds to guide members in both pre-retirement and retirement. While a growth of standard intra-fund advice will result from such an obligation, the opportunity for funds to guide members using robo-advice tools is also significant. Retirement income needs and determining a suitable mix of retirement income streams are tasks well suited to robo-advice software.

Augmenting adviser-to-consumer recommendations

Automation has been the cornerstone of financial advice for decades. The use of software to project wealth accumulation, tax liabilities, insurance needs and retirement income has long been widely used by planners.

With the prospect of a broader best interests duty and the rise of product-agnostic advice, robo-advice and automation tools are the most likely way in which advisers will meet these obligations. A robo-advice tool is the only feasible way to find the most appropriate product to support a strategic recommendation where the adviser is required to consider a broader range of products than those on their Approved Product List, already held by the client and suggested by the client.

Furthermore, automated analysis will be crucial in providing clients with financial counselling, or cashflow management, advice. Such analysis involves the classification of hundreds of data points and will only be possible with the assistance of software.

Benefitting from adviser-to-consumer referrals

In a purely fee-for-service advice environment, non-high net wealth consumers will only have limited ability to engage a financial adviser. When they do it is likely to be for more transactional advice, such as upon entering aged care, choosing investment products or a short-term cashflow analysis. Advisers will still be able to assist such clients beyond their own direct involvement by referring them to suitable robo-advice tools for advice when they cannot afford face-to-face advice.

[142] Canstar, "What amount of life insurance is enough?", Accessed March 24, 2019, https://www.canstar.com.au/life-insurance/what-amount-of-life-insurance-is-enough-for-you/

Adviser compliance processes

According to Business Health's Future Ready VII report, 98 per cent of adviser practices surveyed already use a database to manage their client information. Furthermore, 69 per cent track workflows using an automated system.[143] The use of automated systems in assisting advisers comply with their regulatory obligations, and provide suitable, consistent advice is set to grow further.

Robo-advice and automation will have out-competed human-based financial planning in some core service areas by 2030, but it will also be crucial in reducing the cost of providing advice than is possible currently.

With product-driven advice waning, the use of a goals-based advice process will become more and more common amongst advisers. Software and online tools to ensure such a process is executed accurately and consistently, such as wealthdigital's Strategy Matrix, will be central to the client engagement process.

Automation will also be crucial when it comes to executing compliance processes. Human file review will be replaced by smart systems that employ evolving algorithms to identify non-compliant advice from documentation and recorded client/adviser interactions. Such automation will greatly reduce the cost of compliance for licensees.

Robo-advice and automation in 2030

While robo-advice and automation will have out-competed human-based financial planning in some core service areas by 2030, it will also be crucial in reducing the cost of providing advice, and helping advisers provide greater analysis than is possible currently. While fewer consumers will be able to afford comprehensive, ongoing, human-led financial advice in 2030, robo-advice tools will assist consumers to make better transactional financial decisions.

Use of automated systems will enable advisers to conduct broader product investigations, execute repeatable, goals-based processes and undertake compliance activities in a far more efficient fashion by 2030. Smart technology will be crucial to maintaining a compliant and competitive financial planning practice.

Conclusion

The financial services industry will have taken on a markedly different shape by 2030. The rise of intra-fund and other super fund-based advice offerings will have forced unaligned advisers to examine different advice services. A greater delineation between transactional and ongoing advice will emerge, with more product-agnostic advice services available than is currently the case.

Financial planners will have reduced in numbers, be younger on average and will be less likely to have changed career to enter the industry. Small-to-medium sized licensees, some aligned to boutique investment providers or Managed Account providers will have risen in number, while privately owned businesses will face reduced valuations of ongoing revenue.

[143] Business Health, "Future Ready VII", 15

Industry funds will have taken over the superannuation marketplace, however the indexed nature of their investments will cause investment managers to apply fewer resources to active investment strategies. Insurers will be forced to look to new technologies and avenues to distribute their products with adviser-intermediated policies accounting for a smaller distribution footprint.

Finally, automation and robo-advice will provide a challenge to financial advisers, but will also drive improved processes and outcomes which will ultimately benefit consumers.

If the past 20 years have taught the financial services industry anything, it is that the only constant is change. There will, no doubt, be further twists in the road before 2030 and financial planning is always subject to changes in political will. That said, the road to financial planner professionalism, the public-service expectations being placed on super funds and the progress of technology all provide strong markers as to the future of the industry.

The median planner in 2030

In light of all the change in the financial planning environment, it is worth exploring what the median adviser will look like in 2030. The features of the median adviser described below are not based on projected industry averages, rather they are a combination of what will be the most common features across the industry.

Services

The median adviser in 2030 will provide a mix of transactional and ongoing services to clients. Higher net wealth clients will receive ongoing advice in the areas of wealth management advice, Self Manager Super Funds (including retirement income streams) and detailed financial counselling and cashflow analysis. The ongoing clients of the median adviser will also consult their planner when confronted with questions regarding in-home and residential care. These queries will result in point-in-time advice and may be referred to an aged care specialist in the practice.

The median adviser will also provide some transactional advice services on a fee for service basis, most likely to the children and grandchildren of ongoing clients, as well as to potential future ongoing clients. The transactional services will include life insurance recommendations, debt management / mortgage broking advice and point-in-time cashflow analysis.

Background

The median adviser in 2030 will be in their late 30s or early 40s. They will have completed a university-level degree majoring in financial planning. They will have commenced their career in financial services and will have progressed to planning.

AFS licensee and business ownership

The median planner will be licensed through a small to medium licensee that provides a vertically integrated investment solution in the style of a Managed Account. They will be a joint owner of their business with 3 to 4 other principals involved. There will be specialisations amongst the principals, generating internal referrals where appropriate.

Products used

In 2030 the median adviser will recommend a range of different products to support their strategic recommendations. Various SMSF service providers, as well as investments through a Managed Account service, will be employed. Transactional product advice, such as that relating to life insurance and mortgages, will be aided by robo-advice tools capable of assessing the full marketplace.

Robo and automated tools

The median adviser in 2030 will employ technology for a range of different purposes including product selection, goals-based client meeting processes, compliance obligations, documentation production and cashflow analysis. Some of these tools will be incorporated into larger software suites (such as a client management system or advice software) and others will remain stand-alone.

Time management for the median adviser in 2030

The increased automation of compliance obligations, research and documentation production will free up greater client engagement time for the median adviser in 2030. The median adviser will be in touch with their clients more often, in person, through meeting software and through the use of online tools. The median adviser will also commit greater time to transactional clients as they look to form the basis for an ongoing relationship.

The median adviser in 2030 will be an educator. Financial counselling and cashflow analysis services will provide the bedrock for the median adviser to continually work with their clients to help them meet their goals.

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