



# Cost Profile of Australia's Financial Advice Industry

**Research Paper**



31 August 2021

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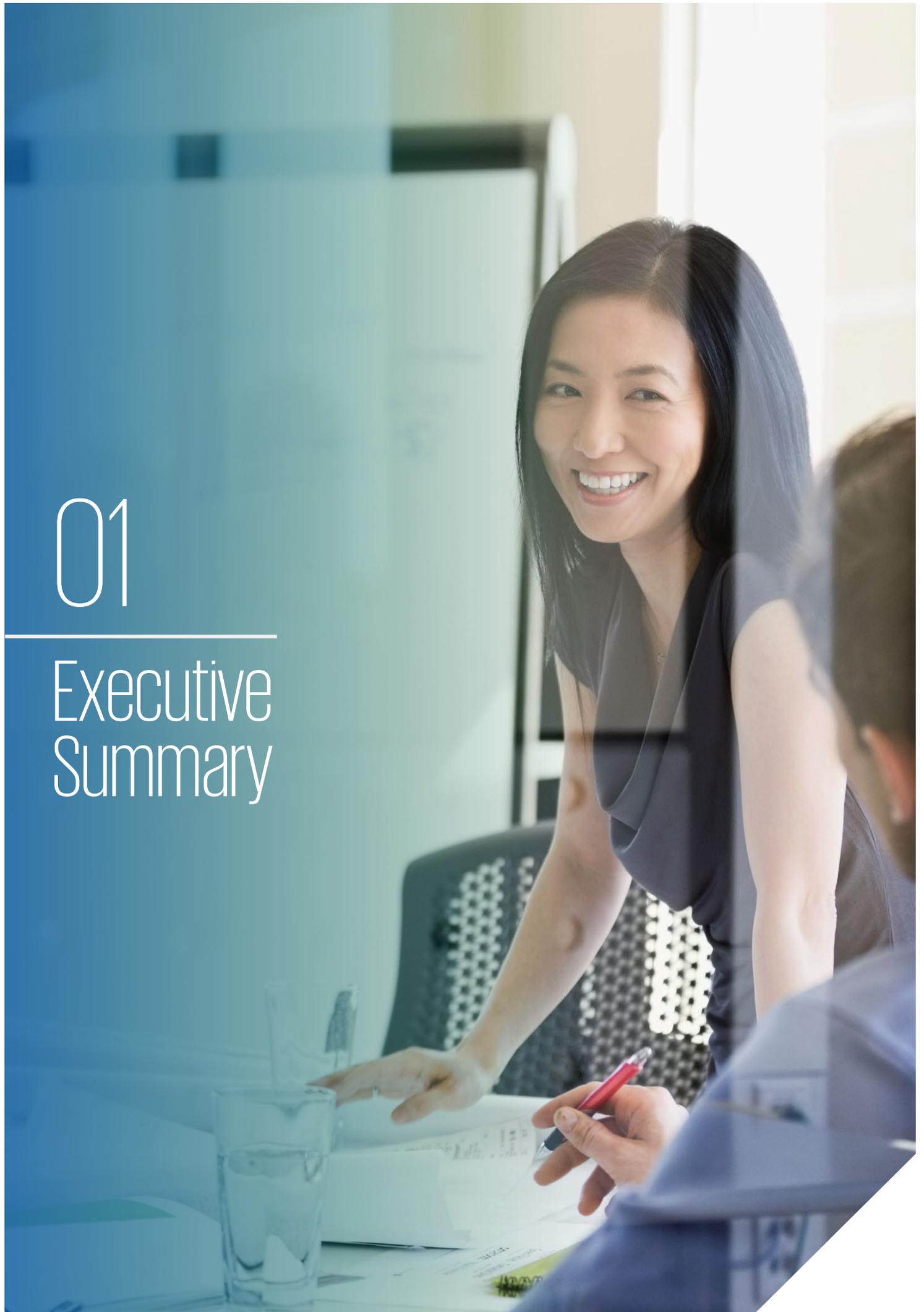
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01

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# Executive Summary



# 01 Executive Summary

Successful adoption of the FSC proposed advice reforms may result in between 37- 39% cost savings and save advisers a third of the time they currently spend in the advice process freeing them up to provide more advice to more Australians.

The Financial Services Council (FSC) commissioned KPMG to undertake quantitative and qualitative research using surveys, interviews and case studies with advice licensees and advice practices to ascertain the impacts the following proposed FSC advice reforms may pose, if the reforms were successfully implemented:

## Best Interests Duty

- **Proposed Reform 1(a)** Removing the best interests duty safe harbour steps provisions from the Corporations Act (s961B(2)) given that the obligation to act in the client's best interests arises in s961B(1); or
- **Proposed Reform 1(b):** Alternatively, removing the best interests duty safe harbour steps from the Corporations Act (s961B(2)), retaining the best interests duty obligations in the Corporations Act s961B(1) coupled with a strengthened professional standard in the Financial Adviser Standards and Ethics Authority (FASEA) Code of Ethics;

## Clarification of types of advice in the law

- **Proposed Reform 2:** Adopt a new financial advice model that is legislated to establish clear segments of:
  - a. General Information
  - b. Personal Advice
    - i. Simple Personal Advice
    - ii. Complex Personal Advice
    - iii. Specialised Advice

## Simplifying advice disclosure

**Proposed Reform 3:** The Statement of Advice (SOA) should be abolished and in its place a Letter of Advice, requiring a substantially shortened and relevant presentation of strategies and advice to consumers. This should apply to all forms of personal financial advice.

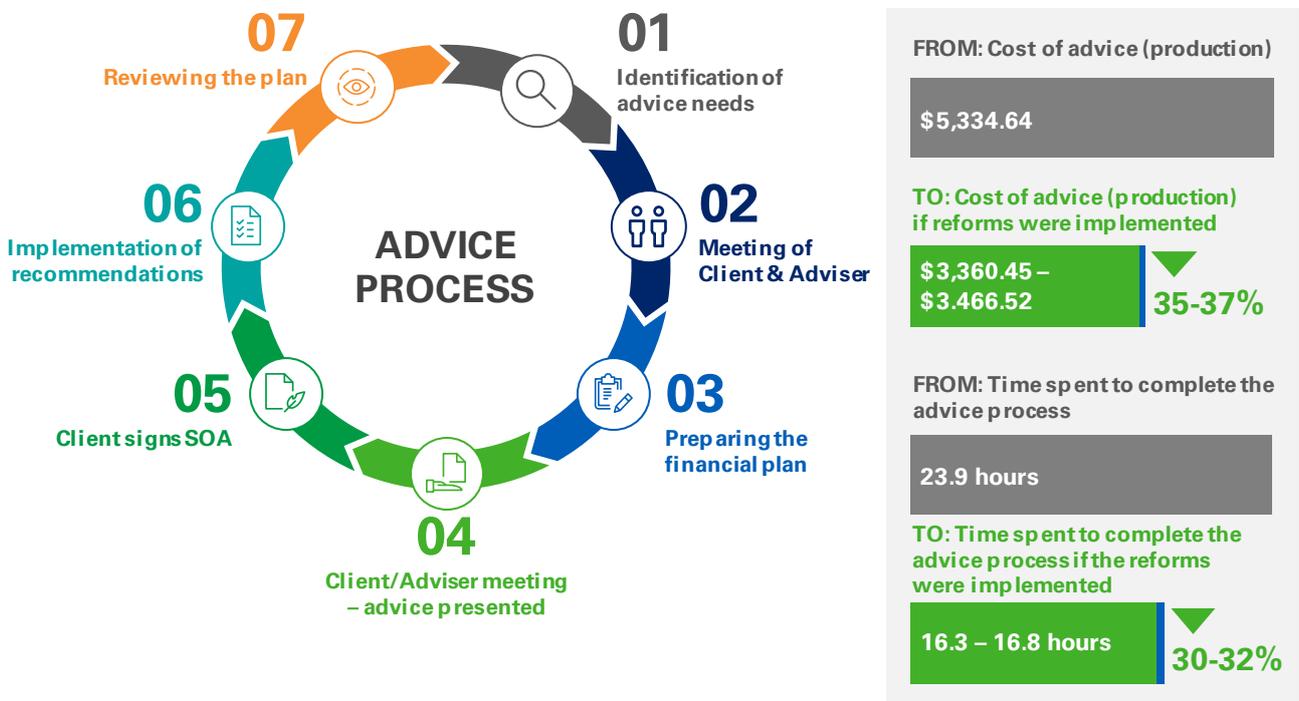
## Technology

We were also asked to provide commentary on how the application of technology solutions can achieve additional cost savings over time. We were also asked to seek research participants views on the cost impact which may be created, if any, by an industry-wide offer documents repository (library) technology service. The service would enable product issuers to lodge their disclosure documents, such as Product Disclosure Statements (PDS') and target market determinations into the industry utility service, who would then enable all product distributors and consumers to access offer documents from its service (technology solution).

Please refer to Appendix A for further information on the FSC's proposed advice reforms.

## Key findings

The research focused on gaining data and insights on the cost of advice via a detailed look at each process step (see the figure below) and considering the time, cost and personnel required to complete each of the seven key and sub steps of the advice process. Advice (production) cost is a function of the time and personnel required per step to complete the advice process. Therefore, all references to cost savings/increases and or time savings/increases refers to the cost/time of advice production as opposed to the cost of advice charged to a consumer.



- Based on data provided, the results show that it is currently costing advisers more to produce advice than is generally charged as an upfront advice fee to consumers.
- Based on the results of the research, the three proposed FSC advice reform resulted in a reduction of time spent in the advice creation process therefore resulting in a cost saving (to advice production):
  - **Proposed Reform 1:** Removal of the safe harbour steps resulted in between a 9% and 11% reduction in the cost of advice (production) depending on whether a strengthened FASEA Code of Ethics replaced the safe harbour steps.
  - **Proposed Reform 2:** Relabelling or simplifying the model of financial advice resulted in a 9% reduction in the cost of advice production; and
  - **Proposed Reform 3:** The removal of the SOA in favour of a Letter of advice resulted in a 17% reduction in the cost of advice production.
  - **Technology:** No research participant saw merit or cost savings by adopting a technology-based industry utility solution to facilitate the centralised storage and accessibility of common documents such as PDS'.

- If **all three of the FSC proposed advice reforms were successfully adopted**. The difference between the following two results lies in the optionality posed to participants regarding Proposed Reform 1.

Where the safe harbour step in the Corporations Act s961B(2) is removed (and reliance is placed on s961B(1)) in addition to the two other reforms, the potential cost of advice production is estimated to fall from:

- **\$5,334.64 to \$3,360.35 or \$1,974.30 (37%) cost reduction** (Figure 1).

Where the safe harbour step in the Corporations Act s961B(2) is removed (retaining the duty in s961B(1)) and a strengthened FASEA Code of Ethics applies, in addition to the two other reforms, the potential cost of advice production is estimated to fall from:

- **\$5,334.64 to \$3,466.52 or \$1,868.12 (35%) cost reduction** (Figure 2).

Figure 1: Advice production cost savings if FSC proposed advice reforms 1a, 2 and 3 were implemented

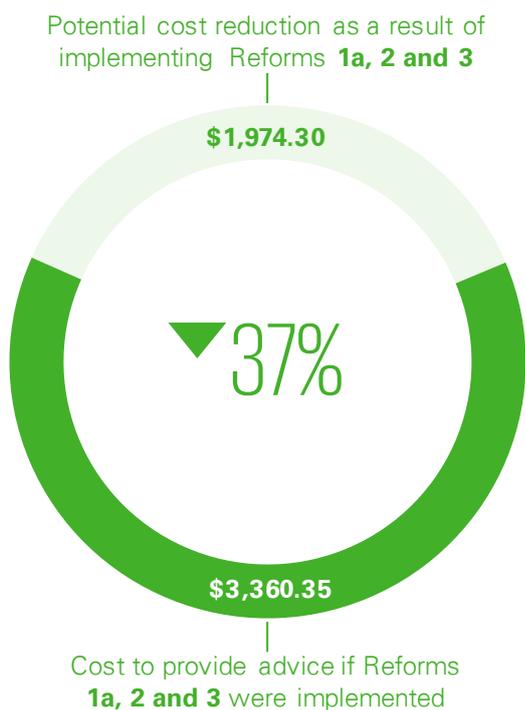
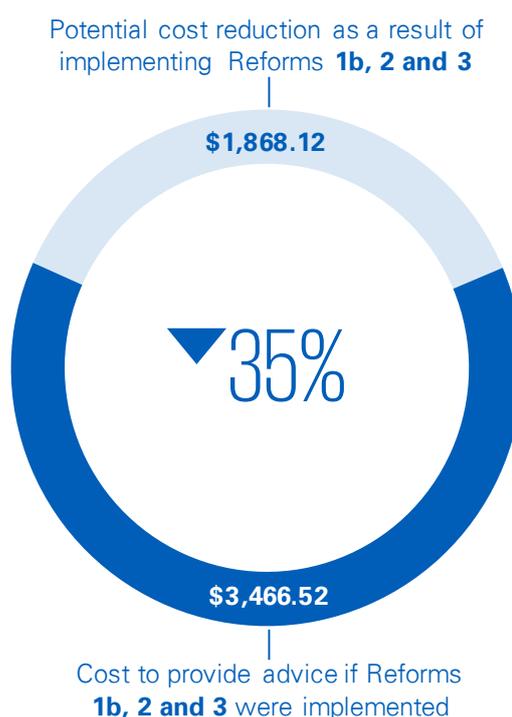


Figure 2: Advice production cost savings if FSC proposed advice reforms 1b, 2 and 3 were implemented



- The research also showed that the bundle of proposed advice reforms would save between 30 - 32% of an adviser's time to produce the advice.
- Further, the research **estimated an efficiency gains in the form of time cost savings of between 30-32%** were the FSC proposed advice reforms to be successfully implemented, our modelling shows that an adviser has the potential to see:
  - **44 new clients per year** (as a result of 723 hours saved) if the FSC proposed advice reforms 1a, 2 and 3 were successfully implemented, or an increase of 222 new clients in the first 5 years; or
  - **42 new clients per year** (as a result of 691 hours saved) if the FSC proposed advice reforms 1b, 2 and 3 were successfully implemented, or an increase of 206 new clients in the first 5 years.

- **Long terms potential system savings**

We modelled the long-term cost impacts (the delta between the baseline results and each proposed FSC advice reform) – adjusted for wage growth over a 20-year period. Our modelling shows that the industry could generate the following potential system costs savings per proposed advice reform at 5, 10 and 20 years (see Table 1).

**Table 1: Estimated potential long-term systems cost savings at year 5, 10 and 20**

	5 year	10 year	20 year
<b>Reform 1a</b>	\$4,853,132	\$10,133,046	\$22,126,645
<b>Reform 1b</b>	\$3,880,042	\$8,101,294	\$17,690,087
<b>Reform 2</b>	\$3,784,755	\$7,902,339	\$17,255,645
<b>Reform 3</b>	\$8,288,084	\$17,305,018	\$37,787,454
<b>Reforms 1a, 2 and 3</b>	\$21,875,134	\$45,673,957	\$99,734,223
<b>Reforms 1b, 2 and 3</b>	\$20,030,571	\$41,822,621	\$91,324,397

## Consumers can benefit from the proposed reforms

It is outside the scope of this research to assess the merit or impact proposed FSC advice reforms may have on consumer protection mechanisms and or on the adviser professionalism framework. As with all good policy, a balance well struck between consumer protection and reduction of red tape generally results in enhanced efficiencies which can be shared with participants in the process, in the form of lower advice cost (fee to consumer) and or in freeing up the adviser to see more clients.

The results of the research show that the participants were of a view that the FSC proposed advice reforms (1-3) would likely result in a simplification of the advice process by removing red tape and reducing the amount of data to capture, analyse and consider in a consumers financial plan (particularly where a consumer is seeking scaled advice).

The financial advisers in the research sample all stated they would pass some cost savings on to their clients and use some of the time savings to be able to see new advice clients.

## Technology will provide efficiencies to businesses

Whilst no research participant in the research was supportive of the industry technology utility the FSC sought feedback on, there is recognition by the participants that the right technology solution, well implemented, including effectively integrated could produce further efficiency gains in the advice process.

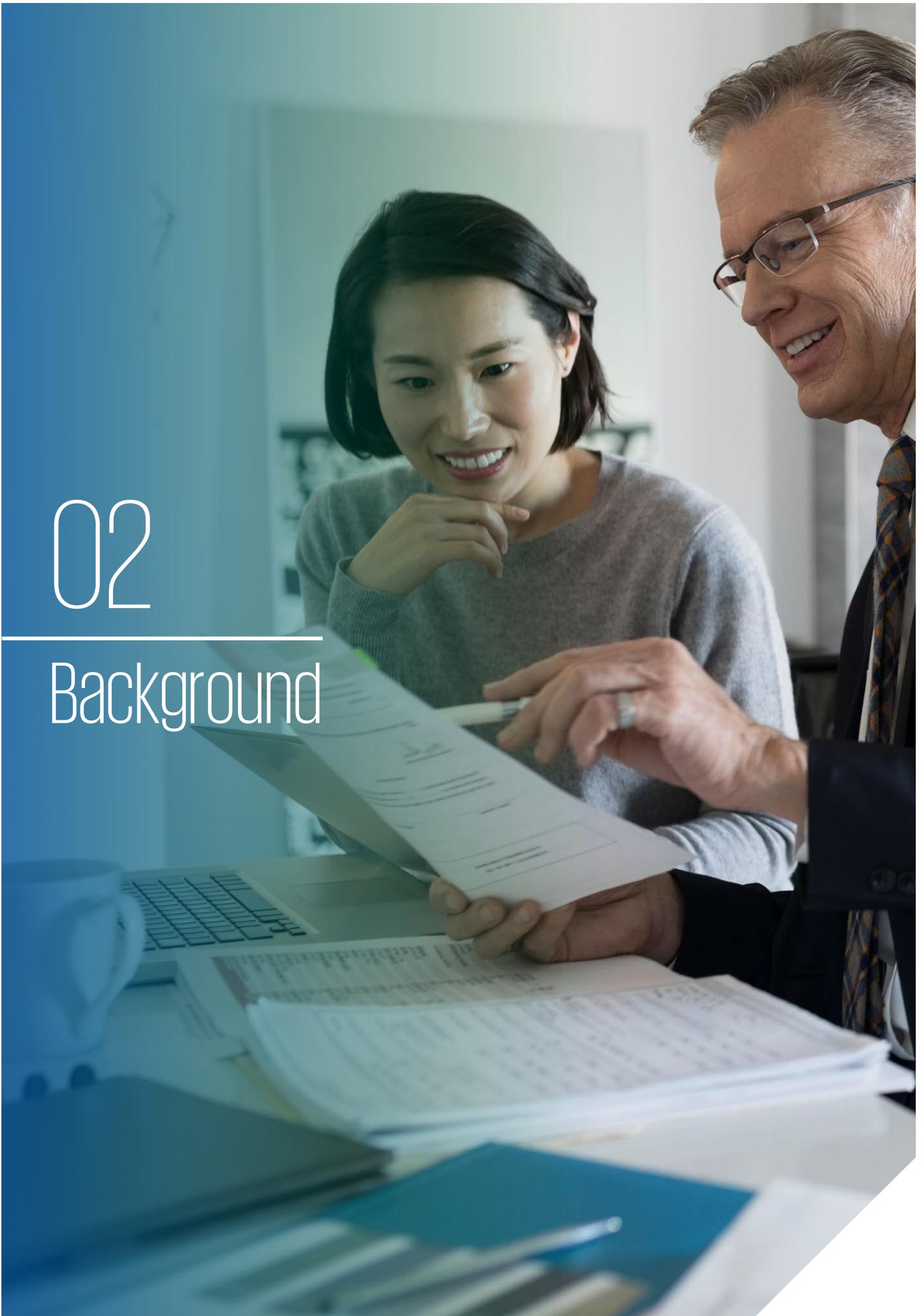
It is our view that there are benefits to be delivered to advice licensees, advisers and consumers by leveraging technology solutions and or transformational change. Our view is based on KPMG experience and a case study is provided to illustrate the potential efficiency gain which could be achieved to free up adviser time, therefore enabling advisers to service additional clients.

The role of technology in efficient practice management will continue to evolve and those practices that invest in technology are likely to see benefits that outweigh the implementation costs. Technology solutions that can synergise the advice process and assist advisers with the most time-consuming steps will be the most valuable. Giving clients access to portals to directly input and verify information is seen as potentially reducing time to complete fact finds. Given the multitudes of systems that advisers and licensees are currently using any solution that can streamline and integrate the systems holistically could provide benefit to the industry.

However, participants noted that investment as both time and money is required to leverage any opportunity technology may present.

02

Background



# 02 Background

## Background and scope

This research report was commissioned by the FSC as outlined with the Letter of Engagement dated 17 July 2021. The scope was agreed with the FSC and KPMG.

The purpose of the Engagement is to provide an evidence-based research report which on the cost of advice. The scope of the research is agreed as follows:

- Via survey (all FSC advice licensees will be issued the survey), interviews (five) and case study assessment (maximum of two) with ASFL (Licensees) and advice practitioners, estimate the cost impacts the proposed policies will have on the cost of financial advice (process cost efficiencies);
- Perform long term modelling (5, 10- and 20-year impact) to show potential financial advice cost reduction if the proposals are implemented;
- Provide commentary and estimate of potential change in advice consumption in Australia as a result of changes in the cost of financial advice to consumers;
- Provide a case study to illustrate (infographic) how the reforms may simplify the typical advice process and or enhance consumer experience; and
- Provide commentary on how the application of technology solutions can achieve additional cost savings over time.

The **proposed reforms** considered in this research were limited to the following:

- Impact (on the cost of the advice process in dollars and time) of removing the safe harbour steps for compliance with the Best Interests Duty enabling a reformed Code of Ethics to be the sole vehicle for compliance;
- Simplifying the documentation requirements by removing the SOA; and replacing the requirements with a Letter of Advice as defined in the Green Paper;
- Relabelling or simplifying the model of financial advice and the impact this has on enabling advice businesses to track, and monitor the advice that is provided and ensure its compliance with the law; and
- Technology based solutions (e.g. Storage of common documents such as PDS' on a centrally managed portal as opposed to manually providing them to consumers, using technology to meet obligations under the Code of Ethics).

The scope of the study focused on gaining data and insights on the advice process, including the time, cost and personnel required to complete the seven key steps of the advice process;

- 1 Identification of an advice need;
- 2 Meeting of the client and adviser;
- 3 Preparing the financial plan;
- 4 Client and adviser meeting (presenting the strategy/advice);
- 5 Client signing the SOA;
- 6 Implementation of recommendation; and
- 7 (if the client is an ongoing advice client) Reviewing the plan.

## Approach

The research conducted quantitative and qualitative research. The methodology is documented in Appendix B of this paper.

We also undertook a literature review and sought peer review and insights from KPMG subject matter experts in the field of financial advice.

## Report structure

This report is structured as follows:

- Section 3 provides context regarding the Australian financial advice landscape including providing an overview of key metrics such as advice usage, a discussion on value of financial advice, the affordability and accessibility of advice to Australians, a summary of the regulatory environment and advice models and the provides an introduction to role of technology in advice.
- Section 4 provides the detailed findings of the research. These reforms are described in Appendix A, and further detail regarding each reform can be found directly in the FSC's Green Paper. Noting that the differences between the reforms researched and the reforms outlined in the FSC's Green Paper, the FSC has given preference to the reforms as provided in Appendix A and as such is the focus of this report.

- Section 5 provides a discussion on how leveraging technology may impact the cost of advice, in light of the research participants unanimous response to proposed reform, where no participant saw value in this reform and indeed expressed the view that it may actually increase the cost of providing advice. As a result, this section contemplates how technology, including back office and front office solutions, can deliver efficiencies in advice processes and lead to increased accessibility of financial advice and presents a case study example of the potential cost savings which could be garnered following initial investment.
- Appendix A provides a description of the FSC's proposed advice reforms relevant to this research.
- Appendix B documents the methodology and applicable limitations of this research in greater details.
- Appendix C provides a glossary of terms.

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## Financial Advice in Australia

# 03 Financial Advice in Australia

## Advice need

Eighteen months into a pandemic, the Australian economy is undoubtedly undergoing the largest adjustment since the Second World War<sup>1</sup>. Australians are facing significant challenges, including financial hardship and financial uncertainty. Australians, in seeking to understand their financial position, plan for their financial futures and or seek access to financial assistance are further challenged by the complexities and interplay of financial services (including superannuation) and taxation law and the social security system. Given low levels of financial literacy and the complexity of the regulatory regimes many Australians turn to others for help, guidance and advice<sup>2</sup>.

Financial Advice can help consumers navigate their financial situation today and for tomorrow. Assistance in the form of guidance and financial advice helps Australians gain an understanding of their current financial situation, clarify and set their financial goals and can assist with the implementation of a financial plan to meet their goals and needs. It can be particularly important for a consumer to seek financial advice at significant milestones in their life such as losing their employment, starting a family or nearing retirement.

## Advice usage

According to research conducted by the Australian Securities and Investment Commissions (ASIC) in 2019, 39% of Australians are or have at some time in the past, received financial advice. Based on research conducted by ASIC in 2010 which found that between 20-40% of Australians had sought financial advice<sup>3</sup>, the 2019 results are either an increase of 19% or a decrease of 1% of Australians having sought advice in the last 9 years.

According to Adviser Ratings, advice usage in Australians aged 21 and over fell from 12.2% (2019) to 11.2% in 2020 as a result of the economic challenges presented by COVID-19 and the cost of advice<sup>4</sup>.

The difference in usage of advice suggests that 21% of Australian are accessing financial advice from other sources such as Super funds and accountants<sup>5</sup>.

<sup>1</sup> Financial Services Council, *Affordable and Accessible Advice: FSC Green Paper on Financial Advice*, 2021, pg. 3

<sup>2</sup> Australian Securities and Investment Commission, *Report 627 Financial Advice: What consumers really think*, 2019, pg. 10

<sup>3</sup> Australian Securities and Investment Commission, *Report 224 Access to Financial Advice in Australia*, 2010, paragraph 14

<sup>4</sup> Adviser Ratings, *2020 Australian Financial Advice Landscape Report (Abridged)*, 2021, pg. 8

<sup>5</sup> 21.8% is the difference between ASIC and Adviser Ratings 2020 advice usage results given that Adviser Ratings appears to capture Australians over 21 advised by the Authorised Representative (IFA) sub sector of the advice profession.

## Value of financial advice

The literature shows that broadly, Australians derive benefits, both tangible and intangible from financial advice. For example:

- Advised Australians rate themselves financially more literate than the unadvised, reflecting one of the values advisers provide their clients in the form of confidence and enhance financial literacy<sup>6</sup>:
- QUT's longitudinal research established that financial planning delivers intangible wellbeing benefits, such as security, control, choice, mastery and life satisfaction to those who obtain advice<sup>7</sup>.



At both time points, the majority of clients viewed *financial advice* as making a positive contribution to their financial well-being and to a range of psychological well-being factors; with highest agreement for **sense of security** (2014: 83%, 2012: 75%) **financial well-being** (2014: 82%, 2012: 72%), **sense of control** (2014: 78%, 2012: 70%) and **peace of mind** (2014: 77%, 2012: 72%).<sup>8</sup>

- KPMG research showed that advised Australians can benefit from increased savings compared to a non-advised peer of a similar socioeconomic demographic. It was determined that advised consumer could be between \$29,000 and \$91,000 better off by receiving financial advice<sup>9</sup>.

In May 2020, whilst Australians were a few months into the first wave of COVID-19, 58% of investors believed that it "is more important to receive financial advice as a result of COVID-19"<sup>10</sup>, 56% of advised and 48% of those seeking advice, saw advice as essential, but only 32% of unadvised Australians were willing to pay for Advice<sup>11</sup>.

### % Who consider financial advice as essential

#### All respondents

18%

#### Receive financial advice

48%

#### Personal relationship with adviser/planner

56%

Despite the need and demand for financial advice, financially, it remains out of reach for many Australians who could benefit from it the most. This section discusses a number of key challenges currently faced by both consumers and providers of financial advice.

<sup>6</sup> Ibid.

<sup>7</sup> Newton, Cameron, Corones, Stephen, Irving, Kym, & Thomas, Drew (2015) The value of financial planning advice: Process and outcome effects on consumer well-being [Time 1 and 2 survey summary results]. Queensland University of Technology, Australia.

<sup>8</sup> Ibid. pg. 7

<sup>9</sup> KPMG Econtech. Value Proposition of Financial Advisory Networks Update and Extension. 18 January 2011

<sup>10</sup> KPMG, *A Covid-19 call to action for the Australian insurance and wealth sector*, 2020, pg. 2

<sup>11</sup> Ibid.

## Accessibility and affordability of advice

A literature review reveals that the drivers of accessibility and affordability challenges which impedes more Australians accessing affordable advice are widely known and understood. On the demand side, two key barriers found ASIC's 2010<sup>12</sup> and 2019 research reports<sup>13</sup> are the cost of advice and consumer perception that advice is out of their (financial) reach.

### Cost of advice and consumer perception that it is out of their reach

Research undertaken by ASIC in 2019 reported in ASIC Report 627 shows that for those who have not sought advice, 35% of survey participants determined not to seek advice because it was too expensive and that "those with lower socio-economic status and those aged under 25 are less likely to use or to have used a financial planner"<sup>14</sup>.

ASIC Report 627 shows that for those who have not sought advice 29% said their circumstances were too limited to be worth getting financial advice<sup>15</sup>.

In their latest consultation paper (CP 332), ASIC reported the average cost of comprehensive personal advice to be between \$2,600 and \$2,900<sup>16</sup>. The Financial Planning Association (FPA) states that the average fee for advice is \$2,671 for an SOA by their members (up 9% from \$2,435 in 2019/20)<sup>17</sup> and the 2021 median fee for advice has been reported as \$3,256 per annum<sup>18</sup>.

With the average Australian earning just under \$89,000 per annum<sup>19</sup> the average cost of advice represents approximately 3% of an Australian single's annual income.

Further, there remains a price gap between the cost of advice (the "price" being paid by consumers as opposed to the advice cost of production in this instance) and the cost consumers are willing to incur for advice, with \$340 being the cost consumers are willing to pay for the first consultation with their adviser and a maximum of \$550 for comprehensive personal advice<sup>20</sup>. Consequently, whilst price is not the sole driver, 66% of Australians say they have never received financial advice<sup>21</sup>.

### Scaled advice

ASIC research shows that consumers would like transactional advice (single issue advice)<sup>22</sup>. Transactional advice is advice which is usually limited to an advice need such as seeking insurance advice and provided by a number of advice providers including super funds via intra fund advice mechanisms. Transactional advice means that a consumer and the adviser are able to determine that the consumer is only seeking and needing advice limited to a topic or product solution or single issue, and able to focus all information gathering, once the scope is determined, to solving for that advice need.

All research participants in our research noted that they would like to provide more transactional (single issue or scaled advice). However, the respondents stated that several factors were impeding them today from providing this type of advice. The two main barriers faced by the research respondents were:

<sup>12</sup> Australian Securities and Investment Commission, *Report 224 Access to Financial Advice in Australia*, 2010, pg. 45. ASIC research report suggests the challenges associated with accessibility include cost of advice, scale of advice, consumer perception that advice is out of their reach, consumer mistrust of financial planners, complexity in the planning process, access to general advice and information being low.

<sup>13</sup> Ob cit. ASIC Rep 627, paragraph 17

<sup>14</sup> Ob cit. ASIC Rep 224, paragraph 41

<sup>15</sup> Ob cit. ASIC Rep 627, paragraph 17

<sup>16</sup> Australian Securities and Investment Commission, Consultation Paper 322, *Promoting access to affordable advice for consumers*, 2020

<sup>17</sup> Financial Planning Association of Australia, *FPA Submission on CP332 Affordable Advice*, 2021

<sup>18</sup> A Vickovich, "How to get financial advice without forking out \$3000", in *Australian Financial Review*, April 2021, <<https://www.afr.com/wealth/personal-finance/how-to-get-financial-advice-without-forking-out-3000-20210419-p57kcu>>

<sup>19</sup> Australian Bureau of Statistics, *Average Weekly Earnings Australia*, <https://www.abs.gov.au/statistics/labour/earnings-and-work-hours/average-weekly-earnings-australia/latest-release>

<sup>20</sup> Ob cit. Rep 627, paragraph 39

<sup>21</sup> Ibid. paragraph 25

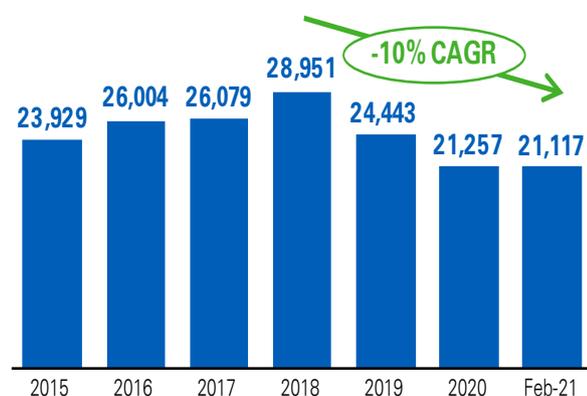
<sup>22</sup> Ob cit. Rep 627, paragraph 19

1. Unanimous agreement, that FASEA Code of Conduct's requirement to "take into account the broad effects arising from the client action on your advice and actively consider the clients broader, longer-term interests and likely circumstances"<sup>23</sup> was a major hurdle impeding scaled advice; and
2. Advice Licensee, for a number of reasons such as that covered above are increasingly risk adverse, and due to an abundance of caution requiring advisers to consider a broader scope and the advice process (information gathering process) has thus been designed to match the compliance process need.

### Advisers are exiting the industry at a higher rate than ever seen before and finding time to onboard new clients is difficult

On the supply side, despite the increasing demand for financial advice<sup>24</sup>, declining adviser numbers may only exacerbate the advice gap. Based on KPMG analysis, there has been a ~10% CAGR reduction in the number of financial advisers since 2018, where 28,951 advisers were registered with ASIC, to 21,117 as of February 2021<sup>25</sup>.

**Total financial advisers** – Number of advisers 2015 - 2021



Source: ASIC Financial advisers data set (February 2021); KPMG research and analysis (2021)

Research by E-Lab & Deakin University in 2021 showed that with regulatory and professional obligations (including time needed out of the office to study and pass the FASEA exam) taking 30% of adviser time (16% seeing client, 11% responding to client emails)<sup>26</sup>, many advisers simply do not have the time to see new clients. If the current number of advisers in the industry continues to decline, or at least remains constant, and the demand remains steady, either advice costs will need to increase or a circuit breaker such as regulatory reform is required to harmonise obligations, provide regulatory clarity and remove red tape to free up adviser time to be able to see more consumers. Another alternative is that advisers/licensees will need to inject substantial capital into transformational change (a combination of technology, business model and process change) to be able to extract back office efficiencies to deliver time savings.

Further, in the current regulatory environment increasingly this means that financial advisers are reviewing and rationalising their client book and focussing their service offering on the wealthier clients who can afford the cost of advice<sup>27</sup>. As advice practices start to divorce their lower value clients, the advice gap will broaden and or consumers will search for advice from other providers.

Our research shows that it costs \$5,334.64 to produce a comprehensive advice plan (first six steps of the advice process) again an average fee close to \$3000 (excluding GST). We note that the sector is likely to face additional costs as a result of the following imminent changes to the regime:

- The compensation scheme of last resort (currently a Bill before Parliament);
- ASIC levies were set to increase by 160% over a 2-year period<sup>28</sup> (note a temporary measure was announced on 30 August 2021 to maintain levies at 2018-19 level for the next two years<sup>29</sup>);
- Treasury/FASEA will require funding.<sup>30</sup>

<sup>23</sup> FASEA, *Code of Ethics Standard 6*, 2020

<sup>24</sup> Investment Trends, *Financial Advice Report*, 2020

<sup>25</sup> KPMG, *Super Insights 2021*, 2021, pg. 17

<sup>26</sup> The E-Lab & Deakin University, *The Wellbeing of Financial Advisers in Australia Report*, 2021, pg. 17

<sup>27</sup> Ob cit. Adviser Ratings, pg. 9

<sup>28</sup> Association of Financial Advisers, March 9 2021, "Fighting the ASIC fund levy increase and how you can help" <https://www.afa.asn.au/news/fighting-the-asic-fund-levy-increase-and-how-you-can-help>.

<sup>29</sup> Commonwealth of Australia, Media Release by Treasurer and Minister for Superannuation, Financial Services and the Digital Economy, 30 August 2021.

<sup>30</sup> A Conway, "IPA Welcomes Financial Advice Reforms But Still More Needed", Institute of Public Accountants, December 13 2020, <<https://www.publicaccountants.org.au/news-advocacy/media-releases/ipa-welcomes-financial-advice-reforms-but-more-still-needed>>

With increasing cost pressures on advice providers, we can expect to see the decline in adviser numbers continue and indeed accelerate and could drop to 13,000 by 2023<sup>31</sup>.

## A summary of the Australian financial advice regulatory landscape

The financial advice industry has been subject to significant and frequent regulatory change following the Ripoll enquiry and subsequent report<sup>32</sup> which gave rise to the Future of Financial Advice reforms<sup>33</sup> (FOFA). Since the introduction of the FOFA reforms in 2012, effective 1 July 2013, there has not been a single year without a regulatory change being introduced for consultation, being made effective, or regulators releasing reports they expect the industry to act on.

Policy and reform in the last decade have focused on bolstering consumer protection and embedding a professional and educational platform to professionalise financial advice.

Cost pressures due to regulatory change have been highlighted to government by industry

participants including industry body submissions consistently in recent history, with these pressures having a direct correlation with the delivery of cost-effective advice<sup>34</sup> and estimated to have pushed up the cost of advice by 30% in the two years to April 2021<sup>35</sup>.

ASIC kicked off a review limited by ASIC's remit, in Consultation Paper 332: Promoting access to affordable advice for consumers in November 2020, which is yet to report. The Government also announced its intent to commission a review into the quality of financial advice in 2022 (announced in April 2021).

Our research suggests that the regulatory settings play a major contribution to the demand and supply side challenges discussed in this section. The layers of regulatory and compliance obligations, licensing and other professional requirements results in ever increasing costs.

<sup>31</sup> J.Hewitt, "Cleaning up the financial advice industry had made it unaffordable", Australian Financial Review, April 19 2021. <<https://www.afr.com/companies/financial-services/cleaning-up-the-financial-advice-industry-has-made-it-unaffordable-20210419-p57kgo>>

<sup>32</sup> Parliamentary Joint Committee on Corporations and Financial Services, Inquiry into financial products and services in Australia, 2009

<sup>33</sup> *Corporations Amendment (Future of Financial Advice) Act 2012*, (Cth)

<sup>34</sup> Association of Financial Advisers, *AFA Submission on Code of Ethics*, 2018, pg. 2

<sup>35</sup> A.Vickovich, "Treasury to review financial advice affordability, insurance sales", Australian Financial Review, April 21 2021 <https://www.afr.com/politics/federal/treasury-to-review-financial-advice-quality-and-affordability-20210421-p57102>

## Australian Advice landscape: Key inquiries, review and reforms 2010-2021



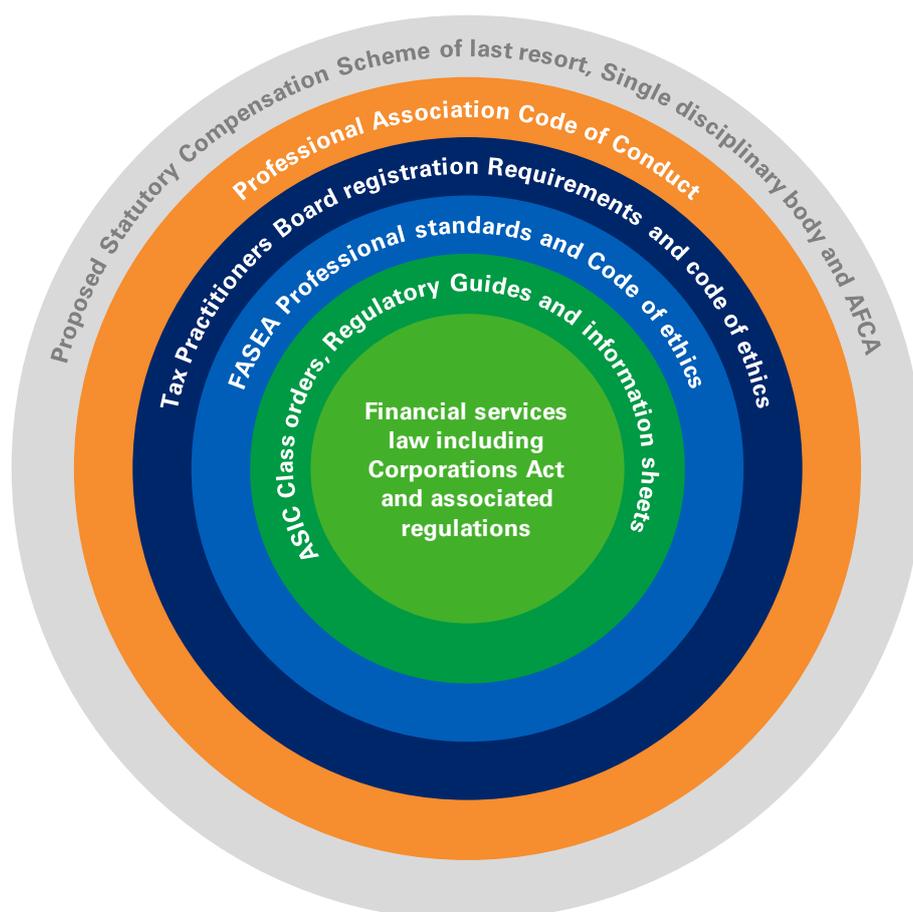


## The layers of regulation and compliance obligations create complexity and cost

Licensees and advisers are required to comply with a financial services law, regulations as well as regulator guidance, professional standards and code of conducts. Advice professionals and or responsible managers within the AFSL are required to comply with various professional bodies mandatory codes of conduct which in the research participants views, are not harmonised. Research participants were unanimous in their views on the challenges, including conflicts some of the layers create, highlighting that an adviser may comply with the law but fail to comply with certain codes and end up in deemed to have failed to provide quality advice<sup>36</sup>.

### Codes of Conduct

- The FASEA Code of Ethics is a requirement for all financial advisers and lays the foundations to reinforce ethical conduct among advisers in society with a single disciplinary body.
- The FPA Code of Professional Practice encompasses three enforceable components Code of Ethics, Practice Standards and Rules of Professional Conduct which applies to FPA members.
- The Tax Practitioners Board (TPB) also requires tax financial advisers to conduct themselves in accordance with its code of conduct and in line with 14 key principles.



<sup>36</sup> Note: A review of the extent or nature of the conflicting requirements and the rationale, or unintended consequences drafting may have created, is outside the scope of this research.

## Advice models in Australia

### Whilst scaled advice is acknowledged by ASIC, in reality it's hard to provide

The need for scaled advice is acknowledged by ASIC and the advice industry, with ASIC releasing several regulatory guides<sup>37</sup> or reports<sup>38</sup> providing guidance for advisers as to how to provide and document scaled advice. The industry recognises the importance of scaled financial advice in the future of advice. However, it has been called out that some expectations of the FASEA Code imposes greater obligations financial advisers than contemplated in the Corporations Act - Best Interests Duty safe harbour. Specifically, research participants raised that standards 2 and 6 pose challenges for the facilitation of scaled advice, as the Code requires extensive information on a client's circumstances beyond needs, objectives and wants, to consider the broad consequences of any single piece of advice<sup>39</sup>. Concerns with these standards results in risk adverse licensees imposing greater obligations on advisers, make greater inquiries and consider matters broader than the client's intended advice needs and scope. Respect of client needs is paramount as often they wish to limit the disclosure of information at first advice and feel more comfortable disclosing more information once they get to know their adviser<sup>40</sup>. It is the view of the research participants that the Code does not permit scaled advice<sup>41</sup>.

### Is general advice permitted?

The Australian advice regime facilitates three layers of advice:

- Information;
- General; and
- Personal advice.

Today many superannuation funds provide members an alternative advice services to the independent financial advice model, including providing general and personal advice (under a variety of advice models). Indeed, this alternate advice service offering has complemented the advice industry as it takes the strain off financial advisers. 1 in 6 Australians used intra-fund advice from their superannuation fund in 2020, with 37% of those who aren't currently taking up the offer wanting to do so<sup>42</sup>.

With an increasing demand by consumers for organisations to personalise interactions, demonstrate "that you know me", many are being challenged by the recent findings in the Westpac Case<sup>43</sup>. ASIC is of the view the boundaries between general and personal advice,<sup>44</sup> are now clarified. Many in the sector now question the viability of the general advice model given that the definition for personal advice is that "a reasonable person might expect the provider to have considered one or more of the person's objectives, financial situations and needs"<sup>45</sup>. ASIC research has shown that despite general advice warnings, consumers may still believe their personal circumstances have been considered.

37 Australian Securities and Investment Commission, Regulatory Guide 90 Example Statement of Advice: Scaled advice for a new client, 2017

38 Ob cit. Australian Securities and Investments Commission, 2010

39 Ob cit. Association of Financial Advisers, 2018, pg. 2

40 Ob cit. Association of Financial Advisers, 2018, pg. 5

41 Note scaled advice here is sometimes referred to as episodic, transactional and or single-issue advice.

42 Ob ci., Investment Trends, 2020

43 Westpac Securities Administration Ltd v Australian Securities and Investments Commission [2021] HCA 3

44 Australian Securities and Investments Commission, 21-013MR ASIC successful against Westpac subsidiaries' appeal to High Court [website], <https://asic.gov.au/about-asic/news-centre/find-a-media-release/2021-releases/21-013mr-asic-successful-against-westpac-subsiidiaries-appeal-to-high-court/>

45 Corporations Act 2001 (Cath), sect 766B(3)(b)

## Technology

Over the past three decades, we have seen significant changes in the role technology has played in the advice back office and in the delivery of financial advice. There are a number of technology and digital solutions to assist Licensees, advisers along the value chain and to assist consumers.

From 1990 to 2010, traditional advice models have been largely focused on face-to-face interactions underpinned by technology that was rigidly structured to business processes; systems were often seen as inflexible, clunky, supported by on-premise technology, focused on performing a high volume of repeatable tasks and often designed and or implemented to perform discrete functions and not connected to deliver efficiencies.

Since 2010, there has been an increased focus on using technology to:

- better deliver the client experience, through embedding telepresence and digital chat functionality,
- enriching the advice experience through collaborative technology environments where customers can share and build upon ideas and strategies together with the adviser.

These experiences have been delivered by an uptake in cloud enabled and mobile responsive technology to allow customers to engage where, when and how they want.

From today onwards, technology continues to move up and capture more of the advice value chain. This includes partnering with “the business” to use contemporary digital solutions to deliver high-value business outcomes, be it digital labour via artificial intelligence and automation, call monitoring, advanced analytics and working towards connected, cloud-based ecosystems. Those organisations that take the reins on using contemporary advice technology ecosystems are likely to win the hearts, minds and wallets of their clients.

A photograph of three business professionals in a meeting. A man with grey hair and a beard, wearing a dark blazer, is leaning over a table, looking at a laptop. A younger man in a light blue shirt is sitting at the table, looking at the laptop. A woman with red hair is partially visible on the right, also looking at the laptop. The table has two laptops, a glass of water, and some papers. The background is a bright window with a view of a city.

04

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Research  
Findings

# 04 Research Findings

## Participants

In total 11 participants took part in the research. This sample enabled a breadth of advice experience to be captured. Participants have been deidentified and categorised as follows:

**Table 2: Research Participant categorisation**

Category <sup>46</sup>	Total Number of respondents	Survey	Interviews	Case Study
Large Scale Licensee (greater than 300 advisers)	2	1 <sup>47</sup>	-	1
Medium Scale Licensee (150-300 advisers)	5 <sup>48</sup>	1	3	1
Small Scale Licensee (50-149 advisers)	2	2	-	-
Small Advice Practice (single office location, less than 5 advisers)	1	-	1	-
Medium Advice Practice (multiple office locations, more than 5 advisers)	1	-	1	-
<b>Total</b>	<b>11</b>	<b>4</b>	<b>5</b>	<b>2</b>

## The Survey

The participants were provided a survey and asked to confirm the advice process steps and provide:

- current state: time, personnel and costs spent at each step in the advice process;
- per proposed reform: estimation of how the proposed reforms may impact each step in the advice process (in terms of time, personnel and cost); and
- fixed cost component per advice process step.

Please refer to the appendix for more detail surrounding the methodology.

The following was asked in relation to the proposed reforms:

<b>1a</b>	Impacts on the costs of advice if safe harbour steps is removed (retaining s961B(1) only)?
<b>1b</b>	Impacts on the costs of advice if safe harbour steps (s961B(2)) is removed and reliance is placed on s961B(1) plus a strengthened FASEA Code of Ethics?
<b>2</b>	Impacts on the costs of advice if advice is relabelled to simple and complex advice?
<b>3</b>	Impacts on the costs of advice if the SOA is replaced with a Letter of Advice?

<sup>46</sup> We referred to ASIC's register of authorised representatives in determining the category classification of participants.

<sup>47</sup> One large scale licensee provided incomplete survey results and have therefore not been used.

<sup>48</sup> One of the medium scale licensee's response was not considered in the modelling, as the response was qualitative in nature only.

An explanation of each reform was provided to help the survey recipient understand the scenario they were being asked to provide estimated cost/time/personnel impacts.

It is important to note that survey results quantified the cost to produce advice based on personnel time spent on each advice process step (noting that personnel included financial advisers, support personnel and paraplanners depending on the advice process step in question) and consideration for other overheads.

## Key findings

Based on participants' understanding of the proposed FSC advice reforms, the advice processes and potential impacts, the research result shows:

- The cost of advice charged to consumers is lower than the cost to produce the advice; and
- That if the proposed reforms were adopted and implemented, there is potential saving in terms of time and therefore cost, in the advice production process that may be shared between the participants in the process (the licensee, adviser and consumers).

## Cost of Advice Charged to consumers

Research participants provided current cost of advice (charged to consumer net of GST):

- Cost of upfront: ranged from \$3,000 to \$5,000 depending on the complexity
- Cost of ongoing: ranged from \$3,000 to \$7,500 depending on the complexity

Average cost of advice charged is \$3,660.

**01** 

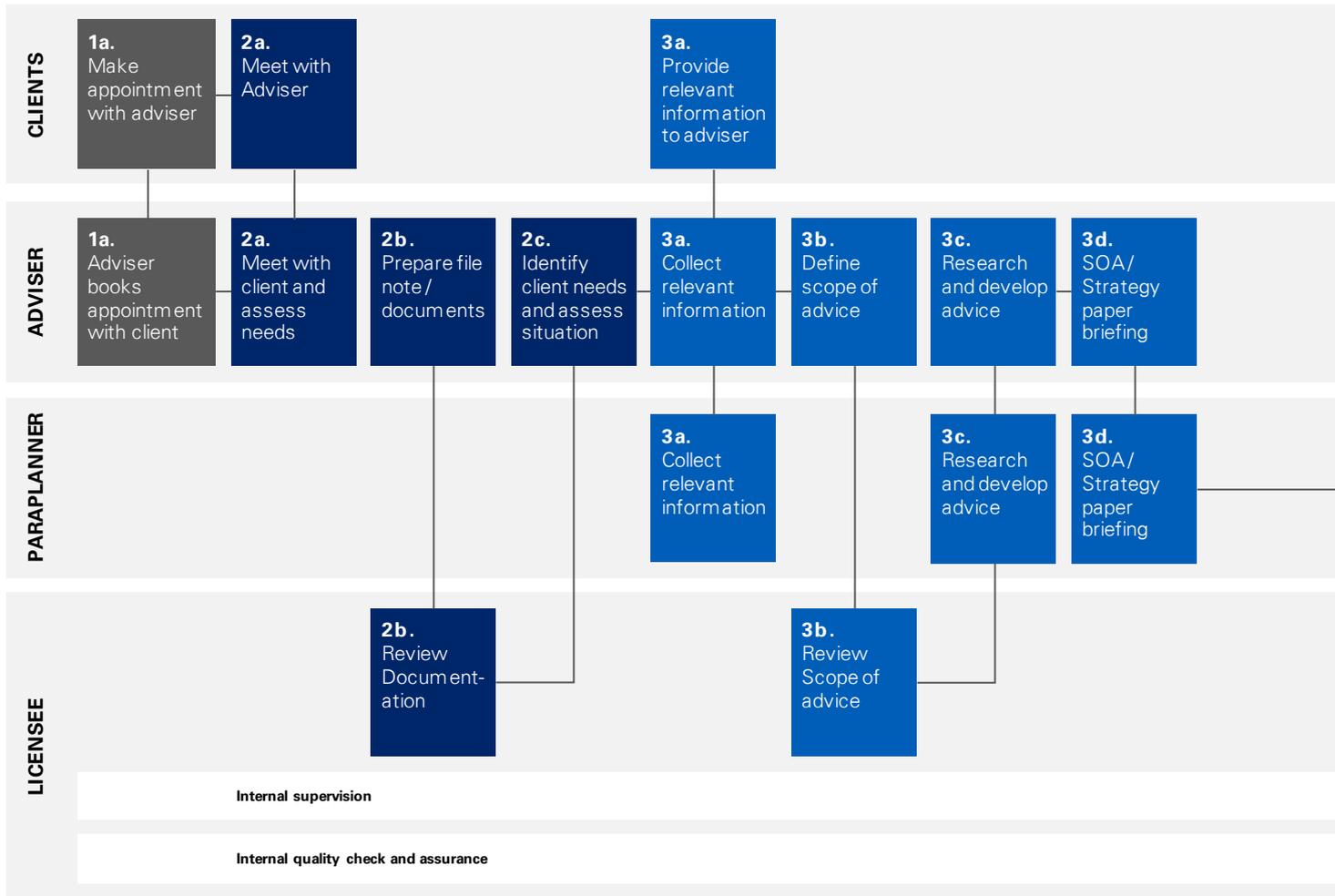
**Identification of advice needs**

**02** 

**Meeting of Client & Adviser**

**03** 

**Preparing the financial plan**

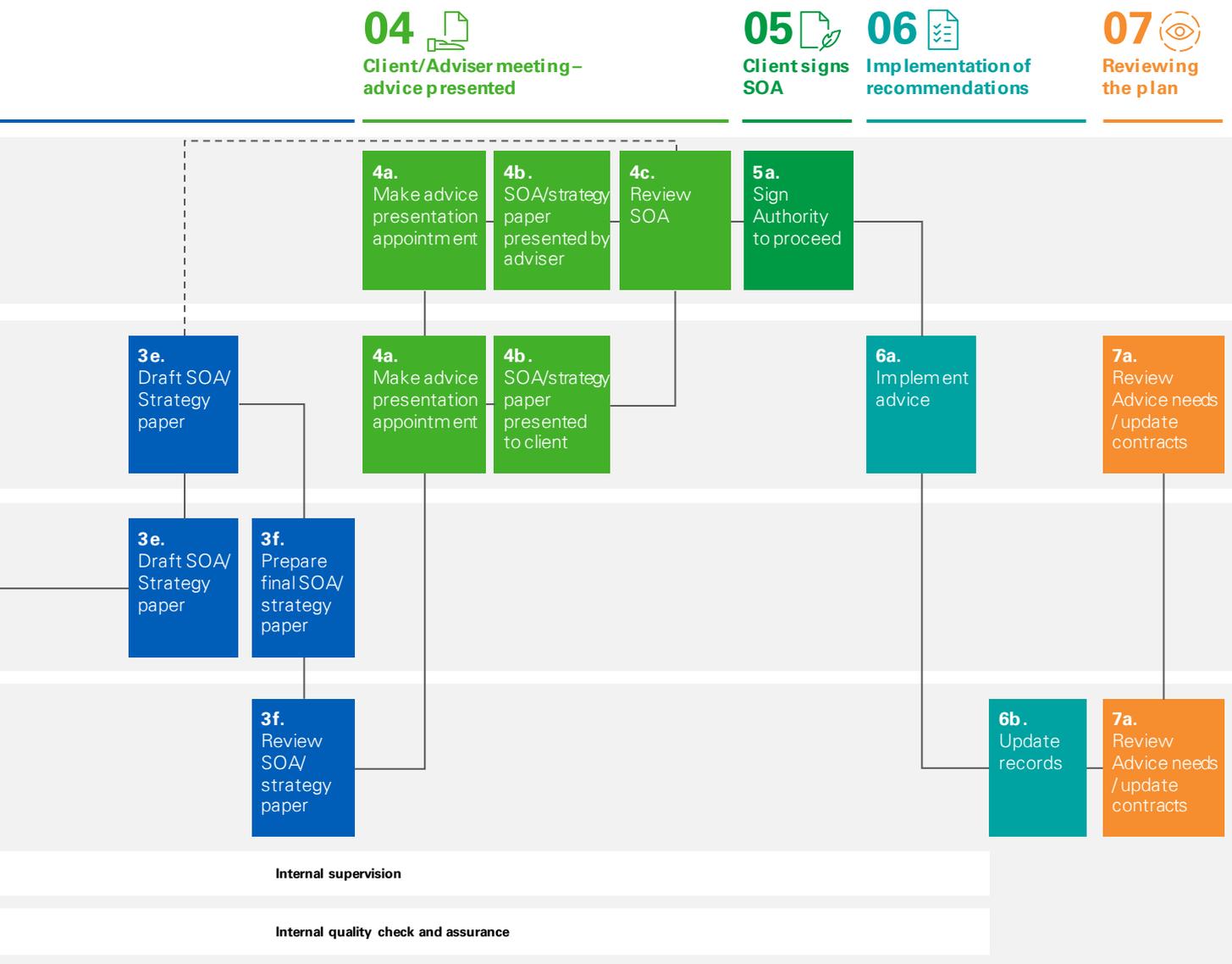


**Current State: Cost of advice**

The research asked participants to provide a response in terms of time spent on each step in the advice process and the cost of that step (determined by the number of personnel involved in the process multiplied by the time spent and cost of the personnel per time unit).

Based on results provided by research participants the **current cost of the advice process (steps 1 to 7) are \$5,334.64**

Regardless of whether you consider the cost of upfront or the average cost charged to consumer – this research shows that advisers are not currently covering 100% of their cost of production.



### Proposed Reforms: Impact on the cost of advice

The research results show that the cost of advice (production) in both dollars and time are reduced as a result of the proposed reforms.

Based on the research results, the successful adoption of the following proposed FSC advice reforms have the potential for the greater cost/time savings:

- 1a) How will the associated costs of advice change if safe harbour steps are removed (retaining reliance on s961B(1));
- 2) How will the associated costs of advice change if advice is relabelled to simple and complex advice; and
- 3) How will the associated costs of advice change if the SOA is replaced with a Letter of Advice.

### Proposed reforms impact on the cost of advice – in dollars

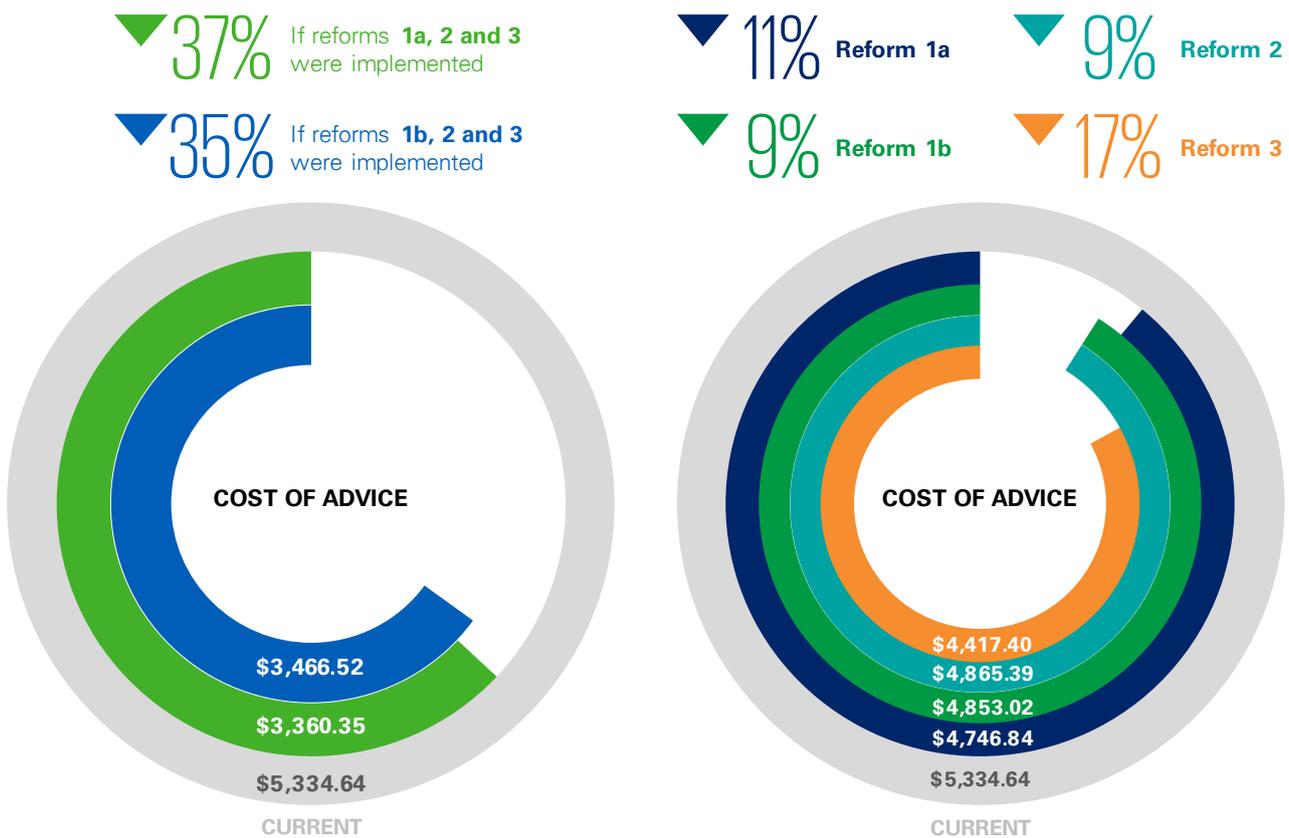
If the proposed FSC advice reforms were to be successfully implemented our modelling shows that the average cost to provide advice could be reduced from:

- **\$5,334.64 to \$3,360.35 or \$1,974.30 (37%) saving** if reforms 1a, 2 and 3 were implemented; **or**
- **\$5,334.64 to \$3,466.52 or \$1,868.12 (35%) saving** if reforms 1b, 2 and 3 were implemented.

By reform measures – if the individual reform were successfully adopted, the cost of advice would fall from \$5,334.64 to

- 1a) \$4,746.84 or an 11% reduction
- 1b) \$4,853.02 or a 9% reduction
- 2) \$4,865.39 or a 9% reduction
- 3) \$4,417.40 or a 17% reduction

Figure 3: Research Results: Potential cost of advice production savings as a result of proposed FSC advice reforms



### Proposed reforms impact on the cost of advice – in time

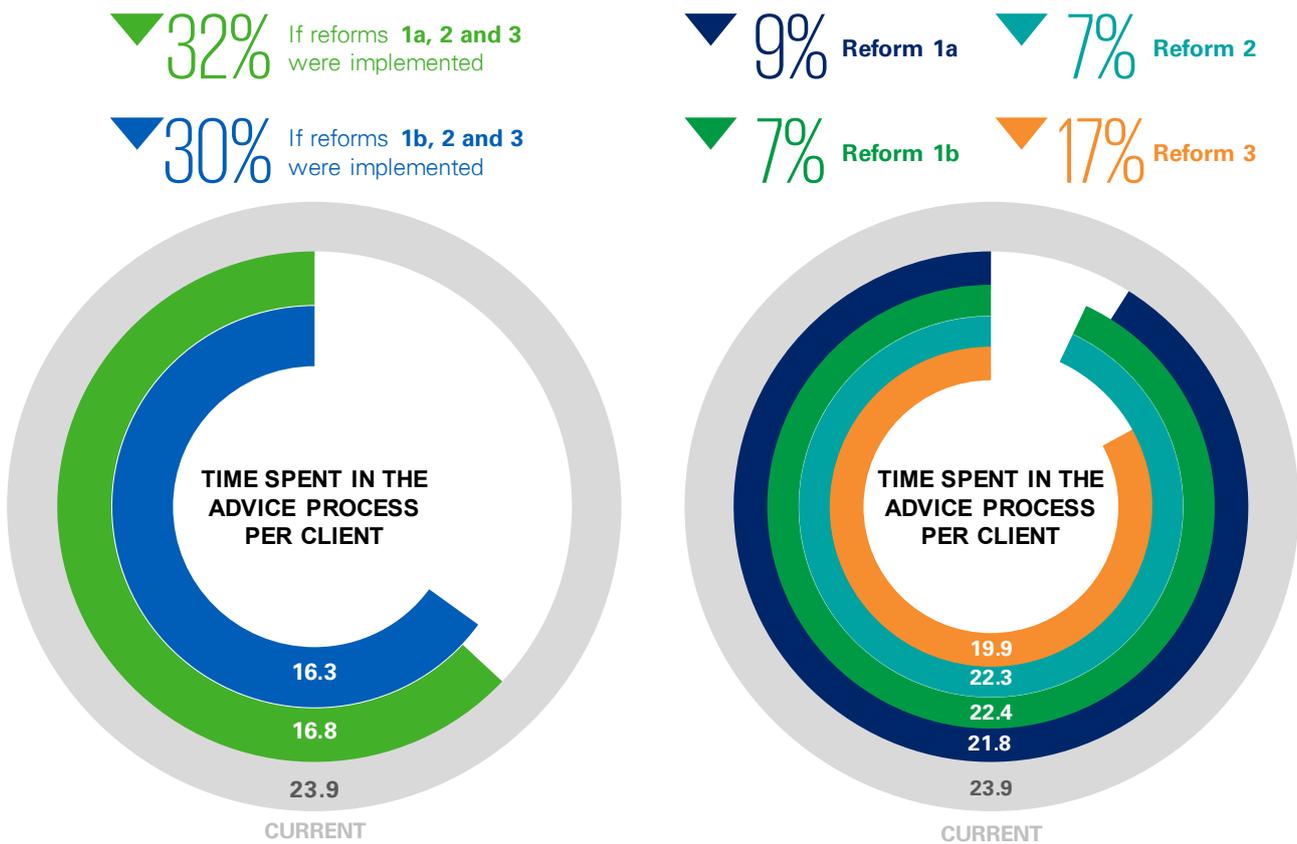
In terms of time (as the cost of advice product is a function of time and personnel cost per time unit), if the proposed reforms were to be implemented the research shows that the average cost to provide advice could be reduced from:

- **23.9 hours to 16.3 hours or a 32% reduction** if reforms 1a, 2 and 3 were implemented;
- **23.9 hours to 16.8 hours or a 30% reduction** if reforms 1b, 2 and 3 were implemented.

By reform measures – if the individual reform were successfully adopted, the reduction of time spent in the production of advice would fall from 23.9 hours to:

- 1a) 21.8 hours or a 9% reduction
- 1b) 22.4 hours or a 7% reduction
- 2) 22.3 hours or a 7% reduction
- 3) 19.9 hours or a 17% reduction

Figure 4: Research Results: Potential time savings as a result of proposed FSC advice reforms

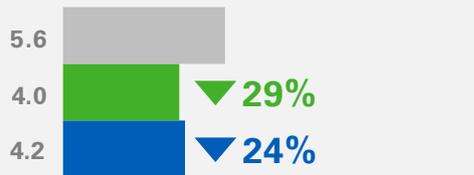


## Advice process time and cost reductions by process step<sup>49</sup>

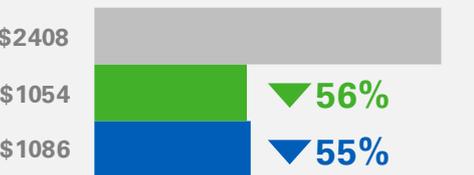
**01**   
Identification of advice needs



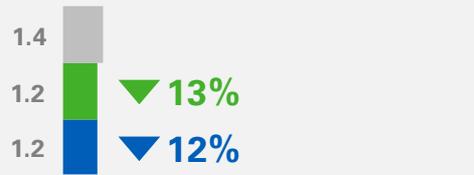
**02**   
Meeting of Client & Adviser



**03**   
Preparing the financial plan



**04**   
Client/Adviser meeting – advice presented

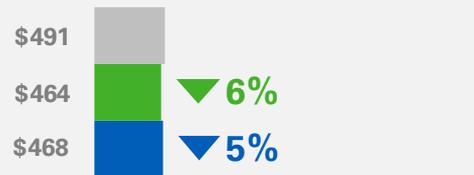
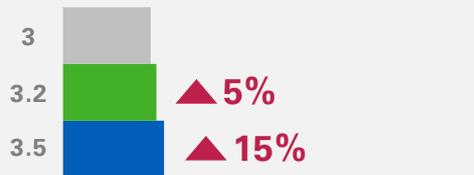


**05**   
Client signs SOA

N/A\*

N/A\*

**06**   
Implementation of recommendations



**07**   
Reviewing the plan



**KEY** ■ Phase 1a, 2 and 3 ■ Phase 1b, 2 and 3

\*Step 5 of the Advice Process, in which the advice client signs the SOA, does not directly impact the advisers and licensees from a time and cost process. Therefore the proposed reforms will not have an impact.

<sup>49</sup> Note to determine the impacts of the reforms, only the adviser and support personnel time and costs were assessed.

## Long term system cost savings

We modelled the long-term system impact of the proposed FSC advice reforms savings (in time and dollar).

The research results show that on average, an adviser produces 1.5 SOAs per week (current state). Further, the results provide that on the basis that each proposed FSC advice reform is implemented, the number of SOAs that may be produced increases (i.e. the modelling indicates Reform 3 may result in advisers producing an average of 1.8 SOAs each per week).

Based on the number of advisers in the market (21,117 as at February 2021) and the average number of SOAs produced by each adviser per week with consideration to the reduction in time spent to produce advice, our modelling shows that the industry could generate the following potential costs savings per proposed advice reform at 5, 10 and 20 year.

Our modelling shows that the proposed FSC advice reforms have the potential to provide the system efficiency costs savings of the following magnitude (and in dollars terms see Table 3):

- 63% long-term cost saving if reforms 1a, 2 and 3 were implemented; or
- 60% long-term cost saving if reforms 1b, 2 and 3 were implemented.

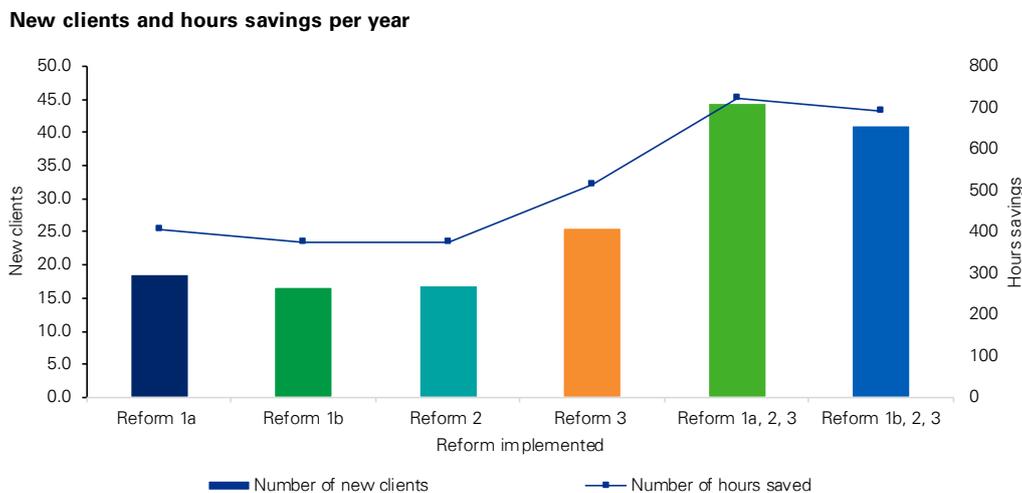
**Table 3: Cost Saving Projected at 5, 10 and 20 years for the financial advice system allowing for increases in wage growth**

System Long term savings	5-year (\$ '000)	10-year (\$ '000)	20-year (\$ '000)
Reform 1a	\$4,853,132	\$10,133,046	\$22,126,645
Reform 1b	\$3,880,042	\$8,101,294	\$17,690,087
Reform 2	\$3,784,755	\$7,902,339	\$17,255,645
Reform 3	\$8,288,084	\$17,305,018	\$37,787,454
Reforms 1a, 2 and 3	\$21,875,134	\$45,673,957	\$99,734,223
Reforms 1b, 2 and 3	\$20,030,571	\$41,822,621	\$91,324,397

**Per Proposed Reform** the efficiencies delivered the system at 5, 10 and 20 years, is a reduction of:

- 1a) 19%
- 1b) 15%
- 2) 15%
- 3) 29%

## Potential to provide advice to more Australians



The less time spent in the advice process per client frees up adviser time which could be spent providing financial advice to more Australians

If the proposed reforms were to be successfully implemented, adviser time savings could free up an adviser to see a greater number of new clients and enables an adviser to grow their business.

**Our modelling suggests an adviser may see an additional:**

- **44 clients per year** if reforms 1a, 2 and 3 were successfully implemented as a bundle, as a result of 723 hours' time savings; or
- **41 clients per year** if reforms 1b, 2 and 3 were successfully implemented as a bundle, as a result of 691 hours' time savings.

Over a 5-year period, for every 10 advisers 2,222<sup>50</sup> or 2,058<sup>51</sup> new clients would be able to receive financial advice if either 1a, 2, and 3 or 1b, 2 and 3 respectively were implemented.

By reform measures – if the individual reform were successfully adopted, the number of additional clients each adviser may be able to service per year is:

- 1a) 18.6;
- 1b) 16.8;
- 2) 16.8; and
- 3) 25.7

<sup>50</sup> Calculated as 44.431 new clients x 5 years x 10 advisers

<sup>51</sup> Calculated as 41.157 new clients x 5 years x 10 advisers

## Further findings

### Qualitative results from Interviews and Case Studies

As above it is noted that some respondents explicitly called out that the fee charged to client for an SOA is often less than the actual cost to produce. This is important to note as a reduction in cost of an SOA may not necessarily lead to a reduction in an upfront advice fee.

In terms of where time is spent:

- 3 respondents attributed a significant amount of time spent to complying with multiple layers of legislation; and
- 6 respondents highlighted that the onboarding/fact find stage of a new client is where a lot of time is spent, therefore driving up costs.

In terms of key factors considered in overheads/costs:

- 4 respondents consider the need for administrative staff/paraplanners as a significant cost driver; and
- 3 mentioned that costs to regulatory bodies (e.g. ASIC levies) and/or cost to keep up to date and implement regulatory changes as significant cost to their businesses.

**Proposed Reform 1:** When asked how the removal of safe harbour (s961B(2)) and or additional retention of a strengthened FASEA Code of Ethics may affect the cost of advice:

- Respondents were generally supportive of this recommendation.
- 6 of 7 respondents thought that the recommendation could reduce cost and/or time spent in the advice process steps, with this recommendation being seen to likely reduce more time to produce than cost of the advice.
  - Cost reduction range: 10-30% SOA
  - Production time reduction range: 20-50%
- Respondents felt that other components needed to be considered alongside this recommendation e.g. FASEA code of ethics to be strengthened and the multiple layers of legislation/regulation to be rationalised.

**Proposed Reform 2:** When asked how recommendation 2 (simple and complex personal advice) may affect the cost of advice:

- 3 respondents said that this reform has the potential to impact how much data and information is required to be collected and analysed. With 1 respondent saying that prescription of "in and out of scope documents per category" would assist cost reduction.
- 2 respondents did not feel that this would have any impact on their business in terms of cost or time.
- 2 respondents acknowledged that clearer definitions are needed, regardless of how the advice is classified. I.e. clear definitions are required and this will simplify compliance overlay and disclosure regimes.
- 1 respondent preferred the current state definitions.
- 1 respondent estimated a 20% reduction in the number of calls that would be referred to an adviser from a contact centre. I.e. that contact centres could service more consumers (provide general advice) without needing to refer a consumer (member of a super fund) to a financial advice (for personal advice).

**Proposed Reform 3:** When asked how the replacement of the SOA by a Letter of Advice could affect the cost of advice:

- All interview respondents qualified their response by saying that they would need to have more clarity of the exact content requirements of the Letter of Advice. Participants responded on the assumption that the Letter of Advice would require less data gathering than the SOA requires today. Critically, the key question they caveated their response with was: How will it be different to an SOA and will the regulatory landscape permit the time saving the Letter of Advice may offer.
- 2 respondents thought there could be a 50% reduction in the time to produce an SOA.

- 1 respondent highlighted that the Letter of Advice cannot be just an SOA by another name as this will not reduce cost or time.
- 1 respondent quantified the reduction as a 2-3-hour reduction.
- 1 respondent thought paraplanning costs could be reduced but did not quantify this.

In relation to how technology solutions for advice can have an impact on the cost and time to give advice:

- A general sense that the cost of technology may outweigh the benefit as ultimately the licensee still needs to check the validity of the inputs and outputs.
- No respondent saw value or cost savings in an industry utility which centralised all offer documents such as PDS', FSGs, TMDs from which adviser and consumers can access instead of needing to go to each product issuer
- Advice practices and licensees are currently using a multitude of technologies to help service their clients, manage their businesses and meet compliance obligations. The number of technologies needed/used is sometimes clunky and does not facilitate 'straight through processing', rather acting as separate systems requiring re-keying/data entry. Solutions which help solve for this challenge would be welcomed.
- Technology solutions still need to be customisable as the advice process is never the same across businesses or clients.
- Technology solutions that can streamline fact find and implementation would be welcomed as a way to reduce time spent in the advice process.

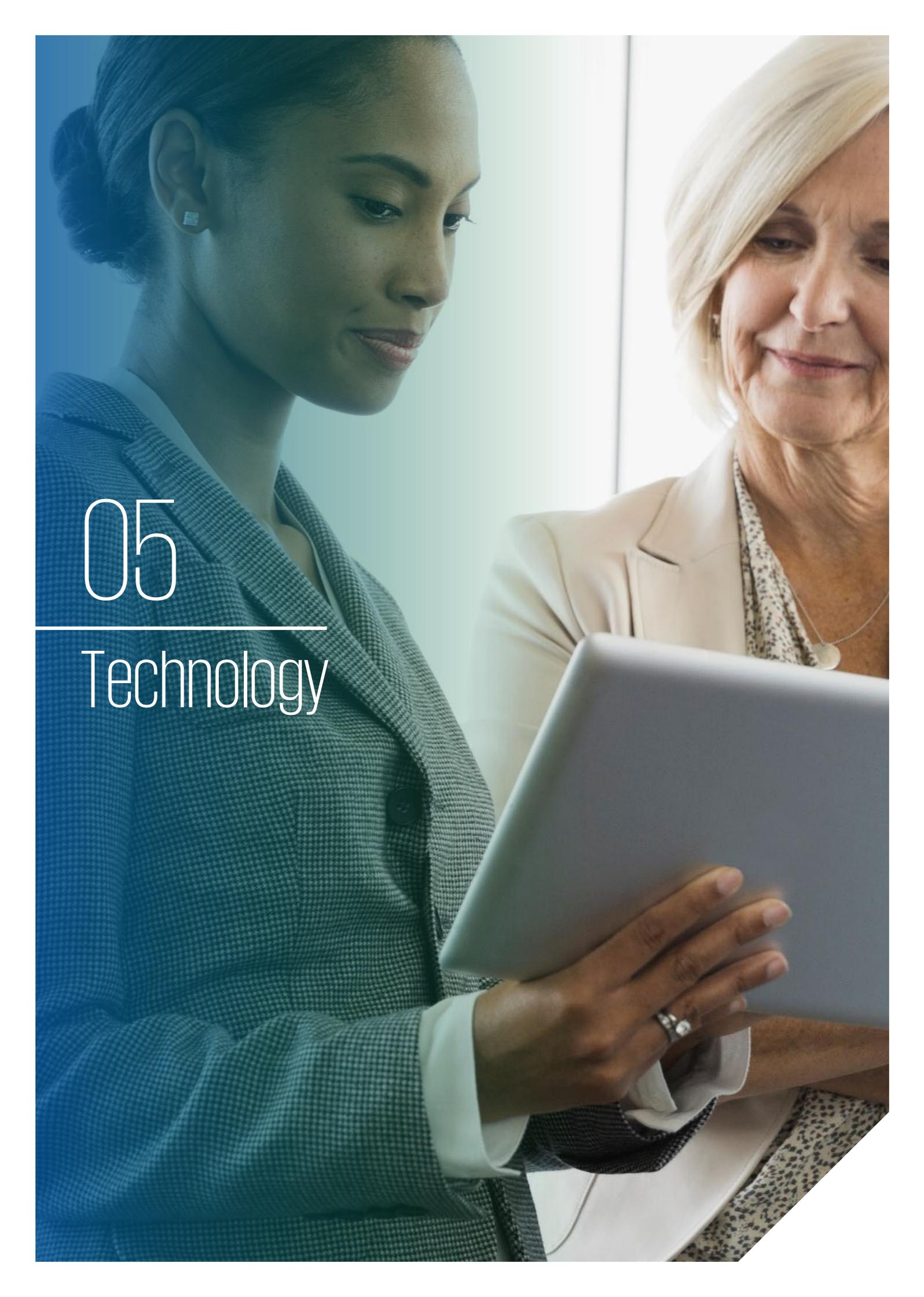


### General themes from interview, case study and survey respondents

- The cost to comply with all regulatory requirements is significant and is a major driver of the advice cost increase over the last few years
- Simplification of the compliance requirements as well as the definitions of types of advice was unanimously welcomed
- Regulator fees and levies are also becoming costly
- Advisers gather more information from clients than may be required to meet policy and procedural requirements set by their licensee.
- Participants would retain and utilise people in a different way in their business if the number of people required to produce advice was lowered. For example, if the reforms were to produce a decreased need for paraplanners, who are a significant cost, there is the opportunity to promote paraplanner into associate advisers or other customer facing roles.
- Adviser research participants indicated that they would likely to share any cost savings derived from reforms with their clients. However, licensee research participants indicated that the savings were largely an adviser efficiency result and that it was a matter for advisers to consider sharing costs with their advice consumers



" A reduction in onerous activities with advice steps would see an improvement and reduction in the cost of providing ongoing support and advice to clients."

A photograph of two women in professional attire. The woman on the left is a Black woman with her hair pulled back, wearing a blue textured blazer. The woman on the right is a white woman with short blonde hair, wearing a light-colored blazer. They are both looking at a tablet held by the woman on the left. The background is a bright, out-of-focus window. The image has a blue gradient overlay on the left side.

05

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Technology

# 05 Technology

## The role of technology

Increasingly technology is playing a key role in the provision, management and monitoring of financial advice. As the advice landscape continually evolves, the unprepared institution may experience increased operational bottlenecks and inefficiencies based on a large degree of manual processing, data management and reliance on the expertise of individuals for first line advice monitoring and supervision; this can further increase processing costs, extend cycle times and place additional demands on existing resources.

This type of environment makes it challenging to scale sustainable growth while winning the hearts and minds of customers. With customer experience, cost efficiency, risk management, conduct and regulatory compliance front of mind, common questions continue to be raised in the Board room including:

- 1 Are we providing our advisers with the right tools, training, and enabling technologies to allow them to maximise value adding time with clients?
- 2 Are we helping our financial advisers to deliver exceptional customer experiences, while managing a cost-effective advice function?
- 3 What confidence do we have in our adviser monitoring activities?
- 4 Do we have the appropriate controls and governance mechanisms in place, to safeguard our organisation, customers and advisers from potential breaches of mandatory legal, ethical and regulatory requirements?

## The value of technology

We see a role for technology to continually improve the customer experience, meet compliance requirements, deliver cost savings and drive efficiencies across the advice function; activities that can help solidify confidence and trust in the financial services sector.

The market for advice technologies is rapidly evolving and continues to emerge at pace. Modern, nimble cloud-based technologies are being leveraged to provide greater transparency into the advice process and improved visibility into business performance. Various forms of automation such as Artificial Intelligence (AI), Machine Learning (ML) and Natural Language Processing (NLP) are being used to help reduce the human burden across various advice tasks, delivering efficiency gains and associated cost-savings. Sophisticated advice technology ecosystems are being built to strengthen customer interactions, develop deep customer insight and deliver seamless experiences across multiple channels.

Advice businesses are seeking to harness the following business capabilities and associated benefits via technology investment:

## Digital Labour



### The capability

Using Robotic Process Automation (RPA) to review advice documents presented to customers for accuracy, completeness and adherence to organisational quality standards. Partially pre-populating fact finds via integration with core systems of record, while harnessing RPA for automated product research and comparison.



### The benefits

Cost efficiencies based on reduced reliance on manual processing and the need for human intervention (i.e. reactive file reviews). Increase the level of automation that supports financial advice processes, especially in relation to advice monitoring and supervision, including vetting digital content, advice documents, advertisements and messages for potential areas of non-compliance.

## Call analytics, recording and monitoring



### The capability

Monitoring and auditing adviser sales and advice calls and isolating discrete components for potentially high-risk key phrases, sentiments and / or statements that may compromise ethical or professional standards. Generating insights into adviser and business performance and highlighting potential non-compliance risk for financial advice provided (at varying levels of legal and regulatory compliance).



### The benefits

Insight into adherence to key risk indicators and associated data visualisation of key risks. When digital labour and call analytics are coupled together, businesses can gain near real-time monitoring of advice documents, allowing a more collective proactive view of risk, compliance and opportunities to uplift customer experience. This can also reduce manual reporting obligations and the ad hoc "patching together" of various data points.

## Document and data management



### The capability

Making use of standardised, templated documents, data and tools such as scanning, signing, fact finding and reporting that align to corporate policy, including the pre-population of data into relevant advice documents.



### The benefits

Drive standardised and consistent documentation and processing through myriad customer channels. Limit the development of customised solutions and the use of non-standardised / ad hoc financial advice processes, data, reporting and technology, which helps to create stability in achieving key service and commercial outcomes.

## Connected, cloud-based ecosystems



### The capability

Replacing outdated and costly legacy technologies via Software as a Service (SaaS) models for applications and data integration services to deliver a connected financial advice ecosystem for multi-channel support and collaboration.



### The benefits

Reduced recurring investment in legacy technology, while supporting quicker time to market and scale via cloud hosted platforms that can elastically grow with the financial advice business to meet the growing needs of customers. When relevant customer engagement and interaction technology (i.e. CRM, marketing, telephony) are linked, advice businesses can better drive connectivity, understand the value drivers for members, deliver operational efficiencies in customer management and offer seamless customer experiences through communication platforms and channels (e.g. phone calls, face to face, social media, interactive portals etc.).

## Sophisticated identity and access management



### The capability

Using industry leading cloud-based identity services to make certain the 'right roles have the right access to the right systems' and / or consolidating identity and access management platforms. This can also include creating more tightly controlled role-based access across the financial advice landscape and delivering robust provisioning of user access to datasets.



### The benefits

Reduced user license costs via more tightly controlled role-based access and robust provisioning of user access to datasets. This limits the number and types of roles accessing sensitive data, and thereby reducing unnecessary license costs. This can also enhance accountability, responsibility and decision making in terms of changes or edits made to financial advice processes, data and documents. Increased confidence in technology security can occur via reliance on hardened, industry proven cloud-based services.

## Learning platforms



### The capability

The ability to digitally disseminate internal updates and monitor training and certification requirements.



### The benefits

Strengthen ongoing training requirements and track adherence to organisational expectations and required risk management processes. Allows for rapid dissemination of critical training that is required as a result of ongoing advice monitoring and supervision activities.



## A case study: Using technology for intelligent reporting, automaton and insight

### Context:

A major superannuation provider was frustrated with the level of manual reporting and processes advisers had to do each week in terms of managing business development, customer-management and business performance reporting. They estimated that up to 10 hours were spent each week juggling calendars, chasing manual notes (i.e. history, interactions, meeting notes etc.) and creating manual spreadsheet reporting to highlight appointment booking, client conversion and associated financial performance.

### The aim:

Improve their ability to develop and execute sophisticated data-driven business development initiatives for advice products and services, including the ability to have a 'single view' of customer history, interactions (e.g. email, phone, social) and transactions. It was critical to have the ability to execute cost effective, technology enabled advice services that were customer-centric and would strategically enrich and support their brand, value proposition in the market and ability to deeply understand their customers wants, needs and preferences.

### The solution:

The organisation designed, implemented and connected adviser services across CRM, financial planning software and marketing automation technology. This allowed improved automated mechanisms of customer correspondence, improved business development options (i.e. appointment booking) to new and existing clients, development of a 'single customer view' and enhanced client on-boarding through the connection of financial planning software to the CRM solution, driving efficiency across multiple business processes. In addition, the management of adviser leads within CRM allowed the development of comprehensive executive-level dashboard reporting, allowing easier management and visibility of pipeline and business performance across the individual, region and geography.

### The benefit:

The immediate value was the cost reduction associated by removing up to 10 hours per adviser that was associated with manual appointment booking, customer correspondence, business development and reporting. Across the adviser group, this equated to over \$1.8m<sup>52</sup> in productivity savings per year, allowing advisers to spend this time on more value additive activities.

These savings also represent a fraction of the overall qualitative benefit which included increased customer experience, a more engaged adviser workforce and the potential increase in conversion rates based on sophisticated, data-driven business development and customer correspondence.

<sup>52</sup> Based on KPMG analysis.

## Looking forward

The market for financial advice technology continues to look promising. Although no single technology solution will serve as a panacea to the range of differentiated requirements for advisers, licensees, and the clients they serve, there is an opportunity to continually leverage technology to provide, manage and monitor financial advice, while enhancing the customer experience.

Technology can deliver an array of benefits dependent on the individual use case, with a key driver being the ability to deliver cost savings and efficiencies. The reality is the provision of financial advice is complicated and only made more so by the highly personal nature of the service itself. We have seen some organisations grapple with a raft of fragmented, legacy technologies and the path to move forward in the face of immense scrutiny – and in an emerging technology market – may seem daunting.

The decision point on how organisations are to respond to the changing technology landscape is not a question of if this needs to happen, but of when and how. The catalyst to move the dial on the current state, and take the reins on driving organisational change, will reward those institutions that recognise this burning need sooner, rather than later.

There are several options advice organisations can take:

- Adopt a 'wait and see' approach: observe how the market continues to evolve and mature and become a 'fast follower' once technology aligns with organisational risk appetite.
- Partner with a vendor: drive innovation through new configured products and experiences.
- Incrementally build an ecosystem of technology components: leverage multiple best of breed vendors.

In an environment of increased attention from regulatory bodies, media and the public, the plethora of changes will persist. Customer experience and compliance will remain front of mind for years to come. Those organisations that pre-empt, rather than react to change, are likely to win the market through the hearts, minds and wallets of their customers.

The technology strategy and associated roadmap to get there will require focus, attention and facing into changes along the way, but there is a significant reward for those organisations that can deliver a sophisticated technology ecosystem.



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# Appendices

# Appendix A – Financial Services Council's Proposed Reforms

The FSC released a Green Paper on Financial Advice in 2021 titled Affordable and Accessible Advice. The Green Paper canvases bold and fundamental changes to the regulatory framework and gives many detailed recommendations. The recommendations that are relevant to KPMG's research are

- 1 Abolishing the 'safe harbour' steps that are unnecessary and administratively complex, while giving financial advisers a false sense of protection;
- 2 Removing complex jargon that confuses consumers by breaking all advice into either general information or personal advice; and
- 3 Abolishing unwieldy Statements of Advice (SOAs), and replacing them with Letters of Advice, which would be short, concise and consumer orientated

An extract of the FSC's recommendations are provided in this section.

## Reform 1

The Best Interests Duty should be retained, and the Safe Harbour steps abolished. The Code of Ethics should be the primary instrument and single source of truth for determining compliance with the Best Interests Duty. This should apply to all forms of advice.

Currently one way to comply with the Best Interests Duty is to follow the following safe harbour steps

- 1 Identify the client's financial situation, needs and objectives
- 2 Identify the subject matter (scope) of advice sought by the client;
- 3 Make reasonable enquiries to obtain complete and accurate information where it is incomplete;
- 4 Assess whether the adviser has the expertise to provide the advice;
- 5 Research products that might meet the needs and objectives of the client;
- 6 Base all judgements on the client's needs and objectives; and
- 7 Take any other step that would reasonably be regarded as being in the best interests of the client.

## Reform 2

Adopt a new financial advice model that is legislated to establish clear segments of:

- a. General Information
- b. Personal Advice
  - i. Simple Personal Advice
  - ii. Complex Personal Advice
  - iii. Specialised Advice

What would normally be provided as strategic or product advice should be provided as Simple Personal Advice or Complex Personal Advice.

Simple personal advice should be defined as advice not recommending a product or class of products but presenting a range of strategy options to consumers to support or assist decision making and that takes into account a consumer's personal circumstances. It would likely incorporate elements of General Advice and the definition of Education. The Regulator would be empowered to permit product recommendations for simple personal advice for set topic areas.

Complex personal advice should be advice that is not considered simple personal advice and be defined in law. Complex personal advice would be subject to a revised Letter of Advice, the Code of Ethics and the Best Interests Duty under a model in which the safe harbour steps are removed.

Strategic advice be permitted under Simple Personal Advice and Complex Personal Advice and should not be defined separately.

## Reform 3

The SOA should be abolished and in its place a Letter of Advice, requiring a substantially shortened and relevant presentation of strategies and advice to consumers. This should apply to all forms of personal financial advice.

The Letter of Advice should at a minimum outline: Advice sought

- 1 Relevant circumstances
- 2 Recommendation and rationale

The term General Information should be legislated consolidating the remaining elements of 'General Advice', and the definitions of 'Education' and 'Factual Information' under the category of General Information.

# Appendix B – Methodology

We undertook quantitative and qualitative research using surveys, interviews and case studies with advice licensees and advice practices to ascertain the impacts the three proposed FSC advice reforms may pose on the cost of advice.

The purpose of the research was to gather information on the current cost of advice what impacts the FSC proposed advice reforms may have on the cost of advice, if adopted and legislated.

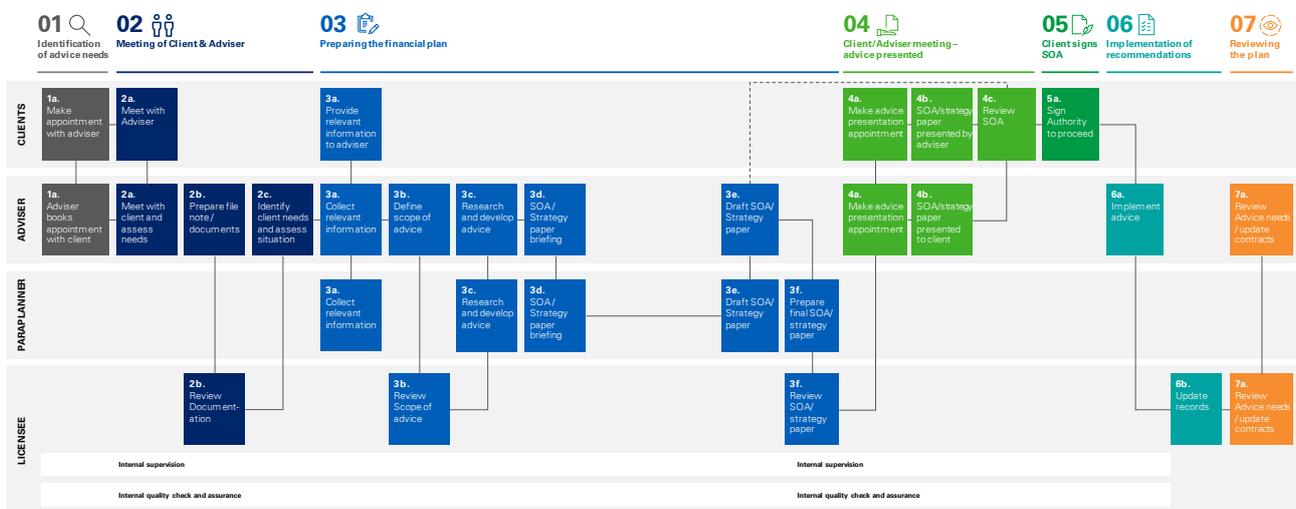
## Research methods

### Survey

To collect standardised data focused on the current advice process and potential impacts the proposed FSC advice reforms, a survey was utilised and sent to potential research participant. The surveys provided in a spreadsheet form, were distributed by e-mail to obtain opinions and estimates the potential cost impacts. The surveys had an advice process graphic clearly showing advice steps (see below) and detailed explanations of each proposed advice reform were provided to help reduce error in interpretation.

The survey questionnaire sought responses to the following:

- What is the current cost of the advice process? And the fixed costs associated with each step?
- How will the associated costs of advice change if safe harbour steps are removed?
- How will the associated costs of advice change if safe harbour steps are replaced with a strengthened FASEA Code of Ethics?
- How will the associated costs of advice change if advice is relabelled to simple and complex advice?
- How will the associated costs of advice change if the SOA is replaced with a Letter of Advice?
- What technologies are currently used to aid in the advice process, and would any be retired as a result of the reforms?
- If the reforms delivered any costs savings / or an increase in costs, how would the cost impact be distributed?



## Interview of licensees and advisers

We interviewed 5 participants via Microsoft Teams due to the COVID-19 travel restrictions and to allow for geographical reach.

The C-suite interview participants were asked the same questions as the survey participants (including the average cost of advice (consumer fee) and time to create an SOA) to gain broader insights (noting we did not discuss the impacts at the subprocess level). The interview allowed interviewees and us the opportunity to clarify any ambiguities and to delve into matters deeper as they arose (for example why a reform may/may not create a cost/time impact and or what step in the process it may impact). The interviews also highlighted, consistently:

- Concerns regarding conflict arising between regulation and professional standards; and
- That cost of compliance has significantly increased in the last 2-3 years.

During the interview, to ensure the reliability of the results, two interviewers were present both taking notes to ensure accurate and complete responses were gathered. We compiled findings and used interview quantitative information together with survey and case study data to determine research results.

## Case study of licensees

We undertook two case studies to gain a deeper understanding of the advice process, current cost and future potential impacts.

In a non COVID world we would have attended the participants premises and undertaken an activity costing exercise (timing a number of live/inflight advice scenarios, following the advice process to arrive at an average). Instead, two case study workshops were held with advice licensees (one large and one medium) to provide details on the impact of FSC reforms. We provided each licensee with the same survey all survey participants received and workshopped and investigated the answers to the questionnaire via Microsoft Teams.

One of the case study participants provided extensive data based on activity-based costing performed by the licensee with their Victorian practices, such that their case study response is based on the averages of 66 practices. This case study participant was also the only participant to provide average personnel cost per time units (hours), taken from a sample of 66 practices which we applied consistency across the other survey participants data to determine the dollar cost impacts.

## Panel of experts

We also tested the advice process and survey with seven KPMG advice subject matter experts. They consisted of partners and directors with a wealth of experience in financial advice policy, strategy, compliance and operations. These experts were selected based on their previous advice work involving the management and governance of advice operations and their extensive work in the financial advice industry meeting ASIC and APRA requirements in the provision of advice. All SMEs have also worked across the bread of the advice sector.

## Research Model Methodology

### Baseline (Current State)

#### Time spent in advice process

- 1 Survey participants were asked to provide a detailed breakdown on time spent on each step within the advice process map on average per client. A percentage of time spent on each advice process step was calculated by dividing the average time in hours spent on each step (from survey responses) by the average total amount of time in hours spent in the advice process.
- 2 Interview participants were asked to provide the total time spent on an end to end advice process for each client. The average percentage of time taken in each process step provided from survey responses was applied to arrive at the breakdown of time spent on each advice step in the advice process for each interview participant.
- 3 A weighted average of all survey and interview responses at each advice process step was taken to arrive at the weighted average time to provide advice at each step of the advice process. These results were totalled to arrive at the average total time to provide advice for each client.

#### Cost of advice

- 1 Survey participants were asked to provide a detailed breakdown on cost incurred (in terms of dollar cost or number of people) on each step within the advice process map for one client. Where a survey participant only provided time spent and the type of resources used, we applied personnel hourly cost provided by 1 of the case studies (which provided an average of 66 practices' personnel hourly rates).
- 2 Interview participants were asked to provide the total costs incurred on an end to end advice process for each client.
- 3 The average percentage of time taken in each process step provided from survey responses was applied to arrive at the breakdown of cost spent on each advice step in the advice process for each interview participant.

- 4 A weighted average of all survey and interview responses at each advice process step was taken to arrive at average cost incurred to provide advice at each step of the advice process. These results were totalled to arrive at the weighted average total cost incurred to provide advice for each client.

### Future State – Impact of Proposed Reforms

- 1 Survey and interview respondents were asked to provide time and cost implications as a result of each proposed reform. The time and cost impact were applied to the baseline time and cost incurred in each step of the advice process to arrive at the time and costs incurred in each of the advice process if proposed reforms were implemented.
- 2 A weighted average of all survey and interview responses at each advice process step was taken to arrive at the weighted average time to provide advice at each step of the advice process if each reform was implemented.
- 3 Two scenarios were modelled to produce cumulative time and cost impacts if multiple proposed reforms were implemented. These scenarios include the implementation of:
  - Reforms 1a, 2 and 3;
  - Reforms 1b, 2 and 3
 and the time and cost implications on each advice process step.
- 4 The results were totalled to arrive at the weighted average total time to provide advice for each client if the proposed reforms are implemented.

## Long term impacts

To determine the system long term impacts:

- The research showed that it takes an adviser 23.9 hours to create an SOA (current state).

The research determined a greater number of SOAs could be produced based on the proposed FSC advice reforms, as a result of time savings, which frees up advisers to produce more advice. The following table show the potential number of SOAs that could be produced per proposed reform (assuming the proposed reform was successfully implemented).

	SOA per Adviser per week
Reform 1a	1.6
Reform 1b	1.6
Reform 2	1.6
Reform 3	1.8
Reforms 1a, 2 and 3	2.2
Reforms 1b, 2 and 3	2.1

- Per proposed reform, to arrive at a financial system cost saving at 5, 10 and 20 years, our long-term cost saving modelling is the product of the:
  - number of SOAs per week;
  - average number of weeks per year an adviser may work (which we estimate is 47);
  - number of advisers in the system (number of advisers used as registered by ASIC in February 2021<sup>53</sup>); and
  - the cost saving previously estimated in this research.

<sup>53</sup> KPMG, *Super Insights 2021*, 2021, page 17

## Research Model Assumptions:

- 1 Where survey and interview respondents provided a range of time spent and costs incurred, an average of the upper and lower range was used to arrive at the time spent on each step of the advice process.
- 2 Where survey respondents only provided the number of people as an indication of cost incurred, an average rate per hour was applied to the cost incurred in each step based on the role of the person performing the task.
- 3 Where a survey respondent has provided details on the time spent on an advice process step by a client, this was excluded from the model to avoid duplication
- 4 There is no overlap in the time and cost impacts in each proposed reform
- 5 For projections on cost savings over 5, 10, 20-year time horizons
  - an assumption of 1.7% annual wage growth rate<sup>54</sup> was applied over the respective time periods were used to assess longer term impacts.
  - The projection of savings has not allowed for the time value of money (i.e. cost savings represent total savings and are not present values)

## Research Limitations

- The findings in this report are based on information provided by participants in interviews, surveys and in the case studies (which provided a mixture of qualitative and quantitative responses).
- The report represents the research participants views and data provided, including their estimations of the impacts on the time and cost of each step in the advice process to arrive at:
  - Current State: the cost (in time, dollars and personnel efforts) of performing each step in the advice process;
  - Per reform: the cost (in time, dollars and personnel efforts) of performing each step in the advice process if the FSC's proposed advice reforms were successfully implemented.
- Where a participant's response was incomplete, we sourced what relevant data we could but did not include their findings in the modelling (cost impact of implementing the reforms).
- One of the case study participants provided extensive data based on activity-based costing performed by the licensee with their Victorian practices, such that the response is based on the averages of a larger than 1 sample. This case study participant was the only participant to provide average personnel cost per time units (hours), taken from a sample of 66 practices which was then used for consistency across the other survey participants data to determine the dollar cost impacts. The personnel cost data provided is:

Role	Rate per Hour (\$)
Adviser	336
Paraplanner	132
Administrator	126

<sup>54</sup> Australian Bureau of Statistics, *Wage Price Index, Australia Reference Period June 2021* [Website] 18 August 2021, <https://www.abs.gov.au/statistics/economy/price-indexes-and-inflation/wage-price-index-australia/latest-release>

# Appendix C – Glossary

Terminology	Definition
AFSL	Australian Financial Services Licence
ASIC	Australian Securities and Investments Commission
Complex personal advice	Advice that is not Simple Personal Advice but recommends products and a strategy for implementation.
Comprehensive personal advice	Advice that considers a number of different goals and personal circumstances and results in a 'holistic' financial plan
FASEA	The Financial Adviser Standards and Ethics Authority
Financial adviser	A person or authorised representative of an organisation licensed by ASIC to provide financial advice
FPA	Financial Planning Association of Australia
General advice	A recommendation or opinion about a financial product that is not tailored to personal circumstances.
General information	Information is which factual in nature and does is not general nor personal advice or tax (financial) advice.
Intra-fund advice	Limited or scaled personal advice that a superannuation trustee can provide to a member about their superannuation account without an additional fee being charged to the individual member.
Personal advice	Defined in the Corporations Act section 766B. Financial product advice given or directed to a person (including by electronic means) in circumstances where: <ul style="list-style-type: none"> <li>the person giving the advice has considered one or more of the client's objectives, financial situation and needs; or</li> <li>a reasonable person might expect the person giving the advice to have considered one or more of these matters</li> </ul>
Safe Harbour steps for the best interests duty	The steps set out in s961B(2) of the Corporations Act. If an advice provider proves they have taken these steps, they are considered to have met their obligation to act in the best interests of their client.
Scaled advice	Advice that is given on one financial issue taking into consideration only the personal circumstances in relation to the single issue. Personal advice that is limited in scope.
Simple personal advice	Advice that is not General Information that takes into account personal circumstances but only recommends products in set areas.
Statement of Advice (SOA)	A document that must be given to a client for the provision of personal advice under Subdivs C and D of Div 3 of Pt 7.7 of the Corporations Act <i>Note: See s761A for the exact definition.</i>
TPB	Tax Practitioner's Board

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