



FINANCIAL PLANNING
ASSOCIATION *of* AUSTRALIA

2020-21 BUDGET SUBMISSION

Financial Planning Association of Australia
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Executive Summary

Financial planning in Australia is going through an unprecedented period of change. Financial planners are responding to a wide range of factors, including:

- changing market structures, with major licensees exiting or reducing their presence in the financial advice sector;
- significant new reforms that are changing the way financial advice is provided;
- rapid increases to regulatory costs;
- changes to how financial planners are paid for their work;
- clients with evolving expectations of how their financial planner interacts with them; and
- reduced public trust from misconduct identified by the Financial Services Royal Commission.

In its approach to regulating financial services, the Government needs to consider the totality of these changes and how they are affecting the long-term viability of the financial planning profession.

Addressing misconduct and creating industry-wide ethical and educational standards is a necessary part of professionalisation and we support the regulators' work to achieve this. The Financial Services Royal Commission revealed practices which are inconsistent with a modern profession and must change to restore trust in Australia's financial services sector.

However, new standards are applying on top of an already complex regulatory framework that has evolved over several decades. While the FPA supports the introduction of many of these reforms, the Government must consider their impact on the long-term viability of the financial planning profession. In particular, rapid increases to the cost to practitioners of additional regulation are a serious risk for small and medium-sized financial planning businesses.

Major financial institutions, including Australia's big banks, are leaving the financial advice business or reducing their presence. Many practitioners are sole traders or work in small and medium-sized practices and their ability to absorb additional regulatory costs is extremely limited. Escalating regulatory costs will result in financial advice becoming more unaffordable and unavailable for many Australians.

While implementing its reform agenda in financial services, the Government must have regard to the cost to practitioners and the impact this will have on Australians seeking financial advice. Unrestrained cost increases will force the closure of financial planning businesses, reduce employment in the sector and set back the development of the financial planning profession.

The Government must investigate the recent increases to regulatory costs and carefully consider its reform agenda to ensure that, while it achieves its goals of protecting consumers and restoring trust in the financial services sector, it does not also damage the financial planning profession and make it more difficult for Australians to access qualified and independent financial advice.

Discussion

The costs to practice as a financial planner come in two forms.

Firstly, financial planners face the cost of mandatory fees, charges, industry levies and insurance premiums.

The number and quantum of these costs has been rapidly increasing and is projected to continue increasing in the near future. The variety of business models and structures in the financial planning sector makes it difficult to establish a single figure for all financial planners.

All planners are subject to the following costs. The major government charge is the ASIC cost-recovery levy. In 2018-10 alone, the ASIC levy increased 26 per cent over ASIC's estimate for that year. Licensees were expecting a levy of \$907 per financial planner and this has now escalated to \$1,142, with an additional minimum charge of \$1,500.

Financial planners must be registered on the Financial Adviser Register, with all costs of running the register recovered from industry on a fee for service basis. Financial planners must also be authorised representatives of an Australian Financial Services Licensee (AFSL), with licensee costs recovered from each planner.

Most financial planners are also required to register with the Tax Practitioners Board (TPB). The TPB does not currently operate on a full cost-recovery basis but, if the Government decides to proceed with this approach, the expectation is that the TPB registration fee will need to increase substantially from the current \$550 over three years.

Through their Australian Financial Services License, financial planners must also be a member of the Australian Financial Complaints Authority (AFCA), with an associated annual charge.

As a condition of their license, financial planners must have professional indemnity insurance. Insurance premiums have been escalating rapidly, regardless of whether a practitioner has been subject to a complaint or a finding from an external dispute resolution process. Insurers are leaving the market. Some practitioners are finding it very difficult to renew their professional indemnity insurance and taking out new cover has become virtually impossible.

In the near future, financial planners are likely to be subject to additional government cost recovery for a new disciplinary system and a compensation scheme of last resort, to name two reforms from the Royal Commission implementation road map.

Secondly, financial planners have the cost to their business in productivity in complying with regulation.

Financial advice is primarily regulated through its connection to financial products. Financial advice is currently defined as advice about a financial product, despite this being only one minor part of a holistic piece of financial advice. Financial planners must have an AFSL or, more commonly, must be an authorised representative of a license-holder.

The cost of being an authorised representative for an AFSL has been rising rapidly, both in terms of the fees paid by a financial planner to hold an AFSL or be an authorised representative, and the burden on their business in complying with their AFSL's requirements. Planners must satisfy the compliance demands of their AFSL, which vary and often go beyond what is set in the law and ASIC guidance. ASIC Report 515 has led to many licensees to create long and expensive

compliance reviews to their advice processes which can lead to significant delays of over three months to provide advice to their clients.

In addition to the AFSL framework, over the last three years the Government has focused on introducing individual registration and accountability. Planners have personal obligations to meet ethical and education standards and will be subject to registration and oversight from a single disciplinary body.

The interaction of existing AFSL-based regulation and new personal obligations has not been fully investigated. While personal obligations are a key part of professionalisation, they are in parts duplicating obligations that continue to exist through the AFSL framework. This duplication and the increasingly complex web of regulations covering financial planning is dramatically increasing the cost of compliance for financial planners.

Increases to the cost of practicing as a financial planner are occurring at the same time as significant disruption and reform to traditional revenue arrangements for planners.

Changes to remuneration arrangements for financial planners are many and varied. Commissions on investment products are being phased-out in 2020. Commissions on life insurance products are being phased down under the Life Insurance Framework reforms. Regardless of the merits of these policy changes, they are resulting in many financial planners needing to make substantial changes to their business models.

As part of the Government's response to the Financial Services Royal Commission, ongoing fee arrangements will be subject to new conditions and there will be restrictions on consumers using funds from their superannuation to pay for financial advice.

Financial planners are increasingly moving to fee-for-service arrangements, but this process can take time. The short-term disruption that these reforms can cause must be managed at the same time as increasing regulatory costs and other major industry changes.

Increasing costs are flowing on to Australian consumers, putting financial advice out of reach of many.

The cost of delivering a statement of advice has recently been estimated at \$6,500, which is several times the typical fee-for service in recent years of \$2,400. With reduced options for paying for advice, including amortising the cost of advice over multiple years, consumers are increasingly finding that they will have to pay high upfront fees. This is putting financial advice out of the reach of many Australians.

At a time when the retirement income system is becoming increasingly complex, Australia also has an ageing population and relatively low levels of financial literacy. Additional obstacles to Australians accessing personal financial advice will negatively impact their ability to prepare for retirement and enjoy a higher standard of living during retirement.

Recommendations

1. To address this issue, the Government should start by establishing the scale of the challenge facing Australians in affording personal financial advice, particularly due to escalating regulatory costs. Without this evidence base, decisions about future reforms will not be informed by a clear picture of the consumer and their interests.

The FPA recommends that the Government, through ASIC, monitors the increasing cost to practice as a financial planner, including through government fees and charges, cost-recovery levies and increases to professional indemnity insurance premiums, and the impact this is having on the affordability of financial advice.

2. The Government should consider regulatory burden and the impact this has on access to financial advice as a key factor in evaluating the future reforms of financial planning regulation.

When evaluating options for reforming the regulation of financial advice, the FPA recommends the Government selects options that reduce duplication of regulation, provide clear and effective oversight, and seek to minimise further increases to regulatory costs for practitioners.

3. Lack of competition in professional indemnity (PI) insurance is resulting in rapid increases to insurance premiums for financial planners. A well-functioning market for PI insurance is critical to ensure financial advice remains available for Australian consumers and that consumers remain protected. As PI insurance is a corner-stone of the regulation of financial advice, the Government has a role in ensuring that it remains available, affordable and gives appropriate coverage.

The FPA recommends the Government, through ASIC, monitors the operation of the professional indemnity (PI) insurance market in Australia and considers options to promote confidence in the regulation of financial planning and transparency in the setting of PI insurance premiums.

4. A Compensation Scheme of Last Resort (CSLR) is a potentially significant additional costs for financial planners to bear at a time when their ability to absorb additional costs is at its lowest. Before applying such a new cost to the whole financial planning profession, the Government must address the reasons why some determinations from financial services disputes remain unpaid.

The burden of these determinations must fall on those who are responsible for the misconduct that gave rise to the claim, not indiscriminately applied to the profession as a whole. Where determinations relate to historic misconduct, it is unfair to penalise current financial planners for the failure of regulators to ensure compensation was paid by the offending licensee.

Before the Government takes steps to establish a Compensation Scheme of Last Resort, the FPA recommends it investigates the causes of unpaid determinations from financial services disputes, particularly the role of PI insurance, and take action to address these causes in the first instance.

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5. Tax deductions are already available for consumers who seek advice on the management of a specific asset or investment which generates ongoing taxable income. The same tax deduction is not available for an initial holistic financial plan, which is the first and most important step in seeking financial advice.

The lack of consistency in the approach to tax deductibility is an obstacle for low and middle-income Australians in seeking financial advice. All financial advice should be subject to the same ability to claim as a tax deduction. If the Government is concerned about the fiscal impact of this approach, it could institute a cap on the amount that can be claimed as a deduction, ensuring all Australians are able to benefit from the arrangement equally.

The FPA recommends the Government provides a tax deduction for fees associated with the preparation of an initial financial plan and for subsequent reviews of a financial plan.