Advice is at the precipice – saving it means putting consumers first

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The history of financial services industry reform can best be described as "afflicted by a commitment to self-interest". While there have been commendable advances, by and large, reform has been a failure.

The Australian financial services sector has reached the precipice and desperately needs a different way of thinking if it is to have a viable future at all.

Advice is now only affordable to a small minority of Australians and retail advice is not scalable in the current regulatory environment. The industry must face reality and recognise that it has evolved into a "boutique" model where barriers to entry limit new advisers.

The current model sees less than 10 per cent of Australians receiving advice. No government can let this continue. To have a viable and successful future, as a basic principle of business, advice has to be affordable and underpinned by a framework that facilitates transparency, clients' best interests and, most importantly, scalability.

Placing the consumer at the centre of the financial services universe will ensure the provision of advice is affordable, fit for purpose, reliable, simplified, and outcomes-based – rather than purely responsive to the prescriptive regulatory framework that's currently in place.

To achieve this, the first step is a new advice framework comprising three categories or levels of advice:

1. Consumer information – not specific; not product focused.
2. Proprietary advice – product/service focused, i.e. super funds, robo-advice, digital advice, shares, life insurance, mortgage finance, SMSF, age care etc.
3. Personal advice – holistic independent advice; not product focused.

Whether consumer, proprietary or personal, the financial practitioners will help consumers achieve their specific financial goals. While they share similarities, they differ in the types of service they offer and the remuneration rates at which they offer them. Further, proprietary and personal advice operate on the principle that the adviser has a fiduciary duty to act in the best interest of the client.

Scale

The three categories proposed above will facilitate scalability in the provision of advice.

In Australia, we need to improve the accessibility and affordability of financial advice. This can only be achieved by increasing scalability via a new advice framework and cutting down the over-regulation of the industry.

Scale is essential. Immediate benefits would include the ability for advice practices to grow, streamline operational/administrative/compliance operations and activities, reduce costs and encourage new entrants to join the advice industry.

Financial literacy

Despite Australians being more responsible for their personal financial well-being than ever before, the vast majority lack the fundamentals of financial literacy. This is of acute concern and needs immediate attention.

The current education curriculum is failing the nation as it neglects to provide financial literacy as an essential skill in the 21st century. In fact, financial literacy should be considered as important as basic literacy.

Financial markets and the growth in fintech are changing rapidly and no nation can avoid being impacted by these developments. The range and complexity of financial products available to consumers is mind-blowing; decisions relating to the purchase of or investment in them can have far-reaching consequences and implications if the wrong choice is made.

At present, schools are providing courses in financial literacy on an ad hoc basis – this is unacceptable. Financial literacy courses should be compulsory in all schools for students in years 10 to 12.

Government and the regulators

Emerging technologies such as artificial intelligence, distance learning, big data, cryptocurrencies, and new digital platforms are disrupting traditional business models – and government is struggling to keep pace.

Australia needs a 21st century regulatory regime to oversee and guide the new framework of face-to-face advice underpinned by advances in technology. It must be proactive and based on common-sense principles.

Meanwhile, the Australian advice industry needs to use digital media platforms more effectively as a vehicle for engaging with consumers of all ages. Far too many advisers fail to recognise these platforms as an essential component of their client experience, business marketing, and communication strategies.

These digital platforms will dominate the Australian Securities and Investments Commission's surveillance focus over the next decade.

The way forward

The history of financial services industry reform can best be described as "afflicted by a commitment to self-interest". While there have been commendable advances, by and large, reform has been a failure.

For far too long, industry reform in Australia has been characterised by conflict and division and has failed to effectively respond to technological and social changes.

Unsurprisingly then, the situation we see today is an industry at a crisis point and an environment where consumers have lost faith in the sector's ability to deliver affordable and accessible advice.

The solution is simple: all stakeholders must find the courage and wisdom to restructure the advice industry in a way that's in the best interest of all Australians.

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