




Quality of Advice Review

Adrian Kwa, Strategie3

Toby Potter, IMAP



IMAP 2022 Events

Advice in Action Conference

14th June – Melbourne

16th June – Sydney

21st June – Brisbane



Advice in Action

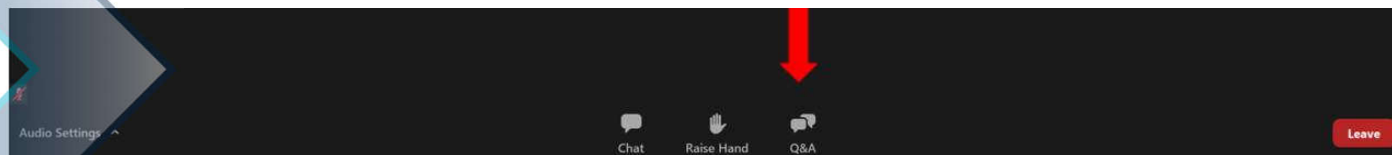
- [Selection and implementation of Managed Account programs – transitioning to Managed Accounts](#)
- [Profit facts and prosperity drivers – using managed accounts for practice success](#)
- [The importance of a rigorous investment process to deliver on client goals](#)
- [Potholes & Roadblocks on the road to business improvement](#)
- [Responding to clients' climate change concerns](#)
- [Building a practice with HNW clients](#)
- [Technology risks and strategy for advice practices](#)
- [Incorporating both Ethics and ESG Best Practice in Financial Planning](#)
- [Individualising the Advice service offer](#)
- [The competition for talent](#)

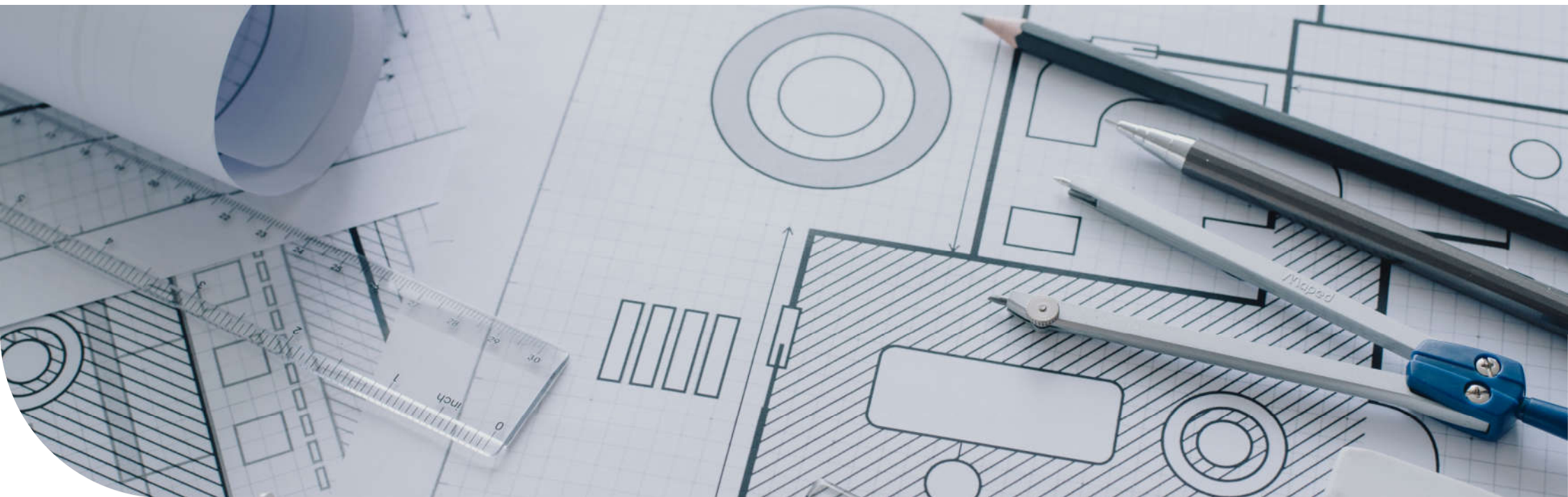


Mike Pope – GM
La Vista Licensee Solutions



How to ask a Question





Quality of advice review

Presenters

Adrian Kwa
Managing Director
Strategie3
June 2022

Toby Potter
Chair
The Institute of Managed
Account Professionals

Strategie3

IMAP 
Institute of Managed Account Professionals

Content

1. The Quality Advice Review – Its objectives, terms and timeline
2. Key issues being looked at by the review
3. What can help reduce the cost of advice?
4. Our recommendations

A RECAP

Terms of reference

In response to Recommendations 2.3, 2.5 and 2.6 of the Hayne Royal Commission, the Government has commissioned a review of the regulatory framework to **better enable** the provision of **high quality, accessible** and **affordable** advice for retail clients



Streamline &
simplify
regulatory
obligations



More
principles,
less rules



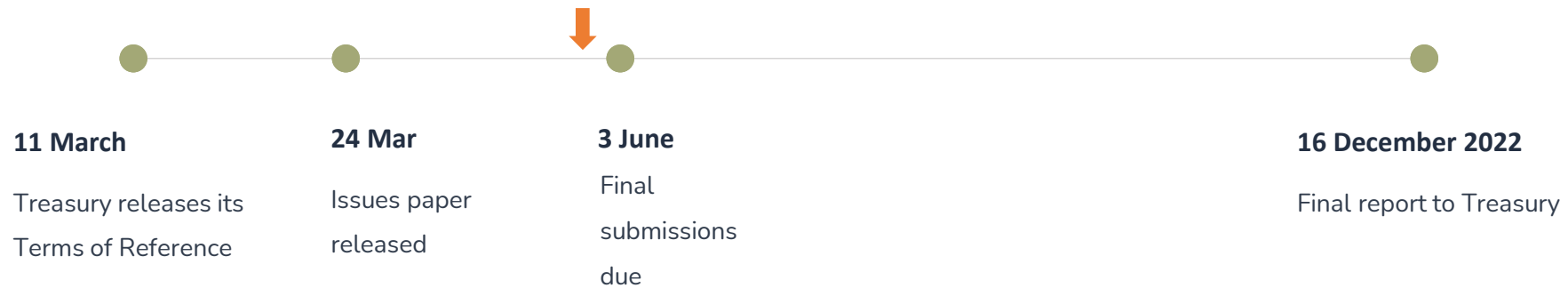
Simplify
documentation
and disclosure



Reducing
unintended
consequences

KEY DATES

Timeline for review



What do I intend to achieve through the submission?

- To help the QAR understand the unintended impacts of over 20 years of regulatory reform on the advice market.
- To make recommendations to Treasury to make:
 - A meaningful reduction in compliance and regulation on advisers;
 - Remove cost and increase capacity to serve
 - It much easier for more Australians to access advice

The review is broad (83 questions across 12 areas)

**1. Defining
quality**

**2. What
drives up the
cost of advice**

**3. Increasing
access**

**4. How should
different types of
advice be regulated?**

**5. Intrafund
and limited
advice**

**6. Facilitation
of digital
advice**

**7. Remove
Safe
Harbour?**

**8.
Conflicted
remuneration**

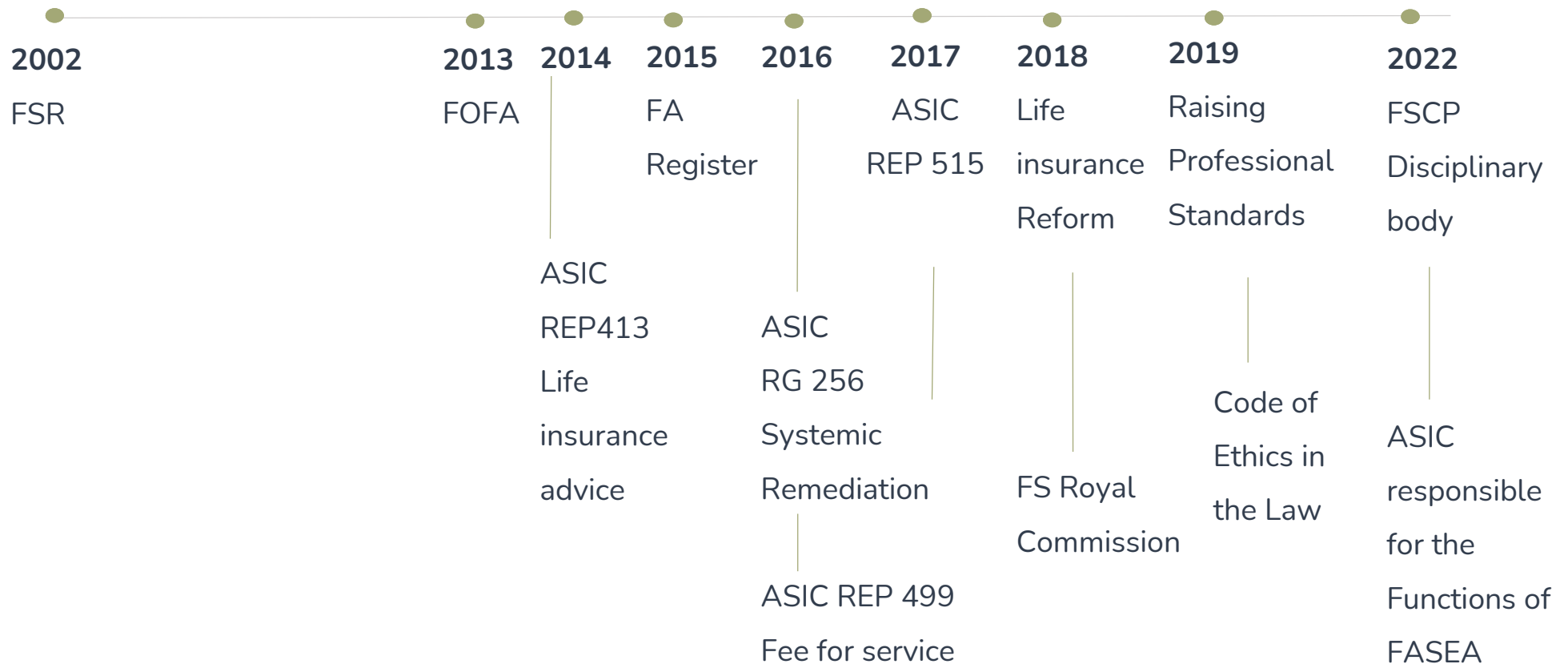
**9. Managing
fee consents**

**10. Advice
documents**

**11.
Accountants
Limited AFSL**

12. Other

More than 20 years of regulatory reform



The gap in qualified advisers and licensee supply

5.6 M

individuals seeking advice¹

16,783

Advisers
28,000 in 2018²

12,271

Forecast Advisers
In 2025¹

<100

Clients per adviser on
average³

100k

Clients disengaged
ceased advice¹

\$3,256

Average advice cost
(up 8%)¹

234

AFSLs
ceased in 2021¹

1. Adviser Voice. 28 April 2022. Media report referencing the 2022 Adviser Ratings Australian Financial Landscape Report

2. Adviser Ratings weekly report. Numbers as at 26 May 2022

3. Vanguard Australia Adviser webinar. Excerpts from the 2022 Adviser Ratings Australian Financial Landscape Report.

The human cost of over regulation

73%

reporting high levels of
burnout from work

17%

experiencing depression¹
most or all of the time

42%

considered leaving the¹
profession

3.25x

self harm²
vs the national average

82%

Stress from daily
compliance demands

1. The E-Lab and Deakin University. 2021. The wellbeing of Financial Advisers in Australia

2. Reported in 2019 against an ABS average of 13 people per 100,000 in 2017.



The gap in advice driven by high cost and adviser exits

Barriers to Demand

Financial literacy

Low trust

Fear / complexity

High cost

Less Consumers access
advice
= disadvantage.

But who is being
disadvantaged?

Challenges to supply

Legal
uncertainty

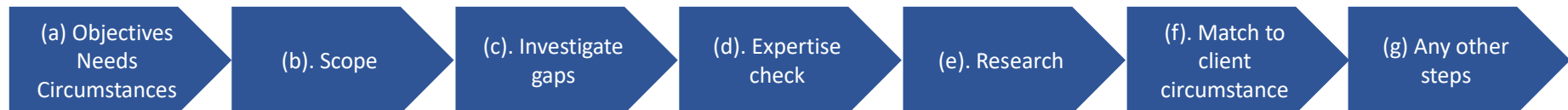
Not enough
advisers

Onerous
documentation

Economics
unsustainable

The BID safe harbour – keep it?

- How Safe Harbour works as a safety net
- Is it driving procedural compliance at the expense of advice?
- Why it conflicts with the code of ethics?
- So if you take away the safety net – what replaces it?



Recommendations

1. How to measure quality?

- By reference to what the client was seeking to achieve. Is the advice more likely to achieve the client's goal /solve the problem

3. How to increase access to advice?

- More initial and ongoing advice through general advice via all channels
- Allow advisers to proceed to limit scope of advice with client consent
- Support proposals to better recognise the education and work experience of advisers
- Government support for advice (tax, subsidies)
- Drive down the initial and ongoing cost of advice. Facilitate solutions that help do this to free up capacity to serve.

7. Remove safe harbour?

- Keep it but make it align to the advice process
- Resolve the code of ethics and conflicts in the Law

Recommendations (cont.)

8. Conflicted rem

- Insurance commissions are necessary to facilitate access to advice.
- LIF reforms have gone beyond their intention – major shortages in advice

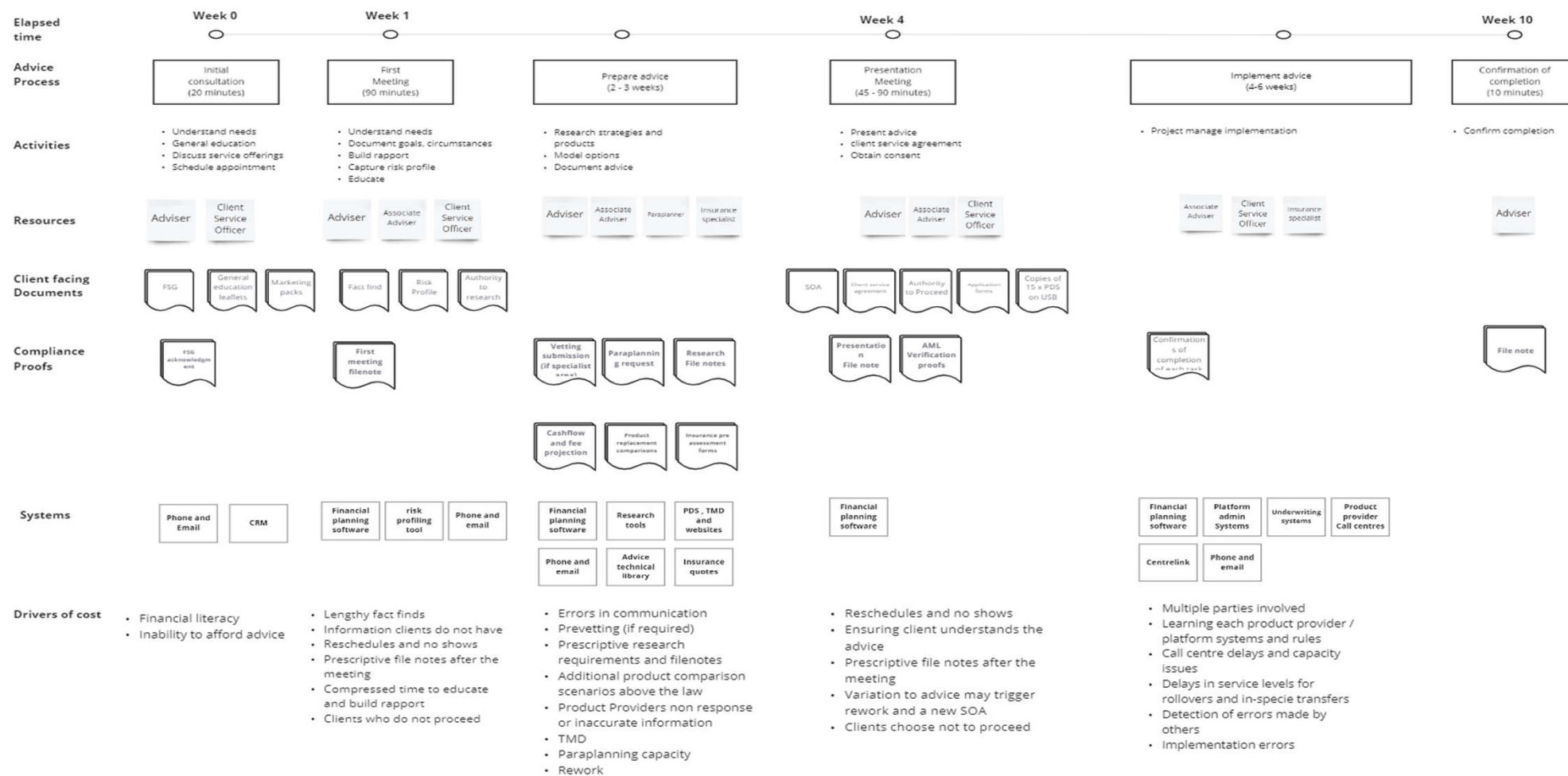
9. Fee consents

- Kill off FDS as there is an annual consent now in place
- Make Trustees and Platforms align to the same forms and the same dates

10. Advice documents

- Kill the SOA and ROA. Have a new scalable Advice Record (A file note of the advice)
- Shorten disclosures – the law is 20 years old from a time when there was multiple conflicted arrangements and subsidies. Now focus on what will directly financially benefit the advice giver.
- Allow verbal advice and disclosure at summary level.

Why is advice so expensive?



Is it just initial advice that is the driver of cost?

- A national average of 100 ongoing advice clients per adviser
- How many new clients would an adviser realistically take on a year? 7 – 10?
- So what is the time in a given week actually spent on x 100 clients?

Annual reviews	Records of Advice and file notes	Preparing for reviews & reporting	Research
Fee consents	Client ad hoc emails and transactions	Rebalancing	Portfolio construction
Checking implementation	Following up product providers / issue resolution	Technical reading	Admin

Dimensions of Quality

In IMAP's view, the key “Dimensions of Quality” of an Advice process are

- The probability of the client achieving their personal goals, within their personal constraints
- Consistency with the client's risk appetite – a special form of constraint
- The ability to accommodate multiple goals or manage multiple constraints that are not necessarily consistent
- The cost of the advice and its implementation, including underlying investments
- The value attributed to the advice by the client
- Timeliness

Facilitating access to solutions that can help

#83 What further actions could ASIC, licensees or professional associations take to improve the quality, accessibility or affordability of financial advice?

The purpose of personal advice relating to investment is to meet client goals through investment over time – and cost is incurred over time!

Probability of client success is improved by:

- Close alignment with client specific circumstances
- Structured process for investment management
- Timeliness and certainty of implementation
 - [Philo Capital Advisers Cost of Delay study](#)¹

50%

Loss of value as a result of a 4 week delay in implementation ¹

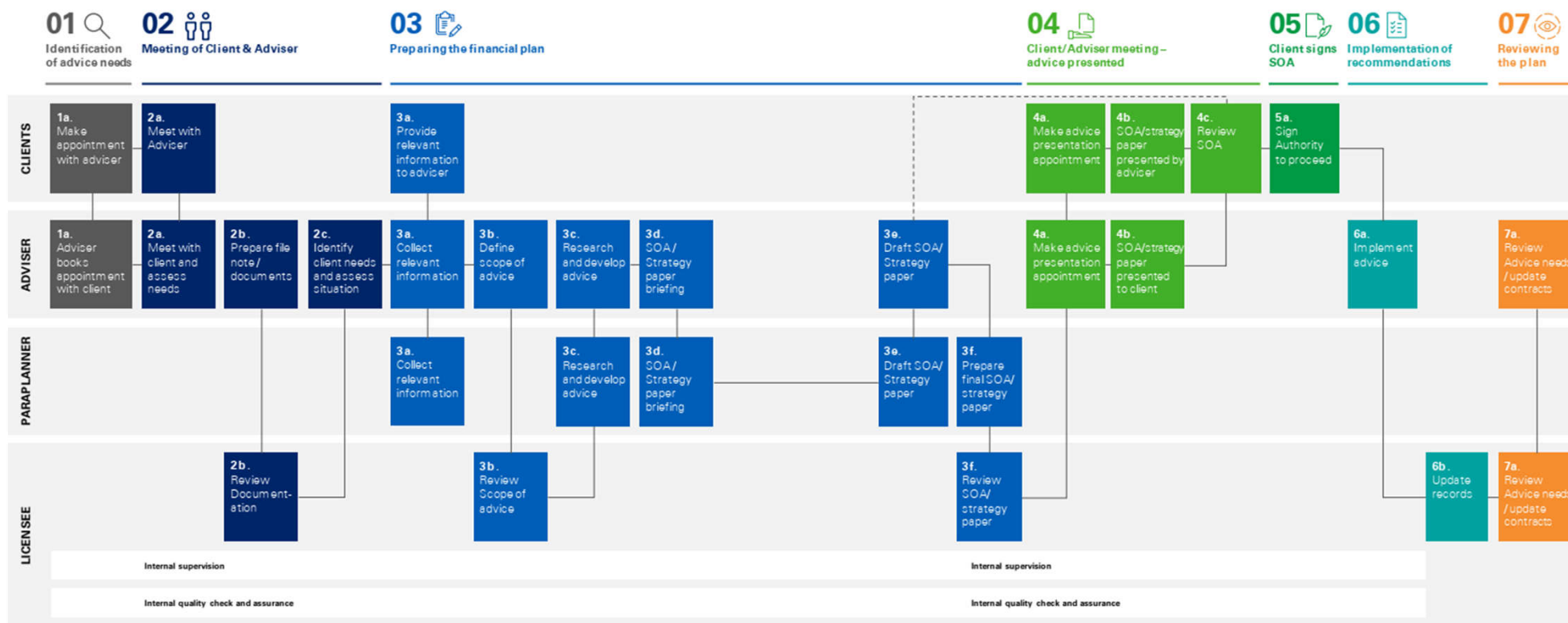
Systematic implementation of investment decisions through use of managed accounts will generally:

- Result in more regular review of portfolio composition than is possible by individual advisers
- Less likely to result in erratic outcomes / variation between clients ²
 - [Philo Capital Advisers Unfair Rebalancing Study / Aequitas Study](#)
- Lower in cost than individual adviser implementation
- Allow advisers to dedicate more time to activities clients say they value – or to providing advice to more clients

75%

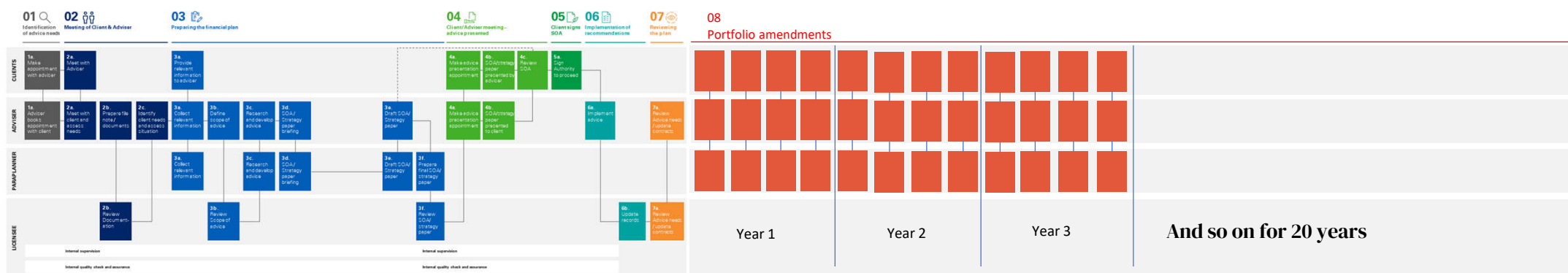
Frequency in which client returns vary by more than 50bp from random rebalance timing ²

The Steps in Producing Initial Advice



This is a partial, episodic view of an advice relationship which typically lasts 10-20 years

Something is broken in this way of considering advice



The costs of creating and implementing advice over time far outweigh the upfront cost, but involve activities – largely administrative – which, to the client, appear to add little value

The Cost of Investment Delay

Simulation of the value of returns since 2000 lost through delay in implementation

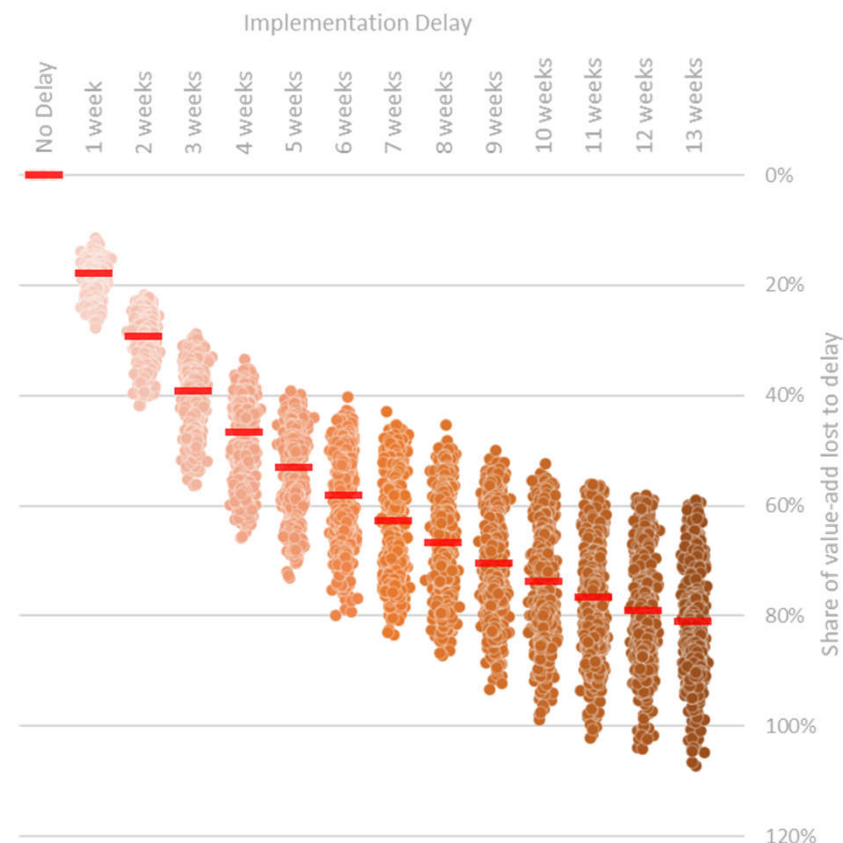
We took a balanced portfolio and modelled the effect of a successful active asset allocation program under various levels of delay.

No delay: with immediate implementation the active program averaged 1.1% pa excess return over a rolling 3-year period, and no losses to delay.

4-week delay: with the implementation of active asset allocation decisions delayed by 4 weeks, the average excess return was lower. Approximately 50% lower.

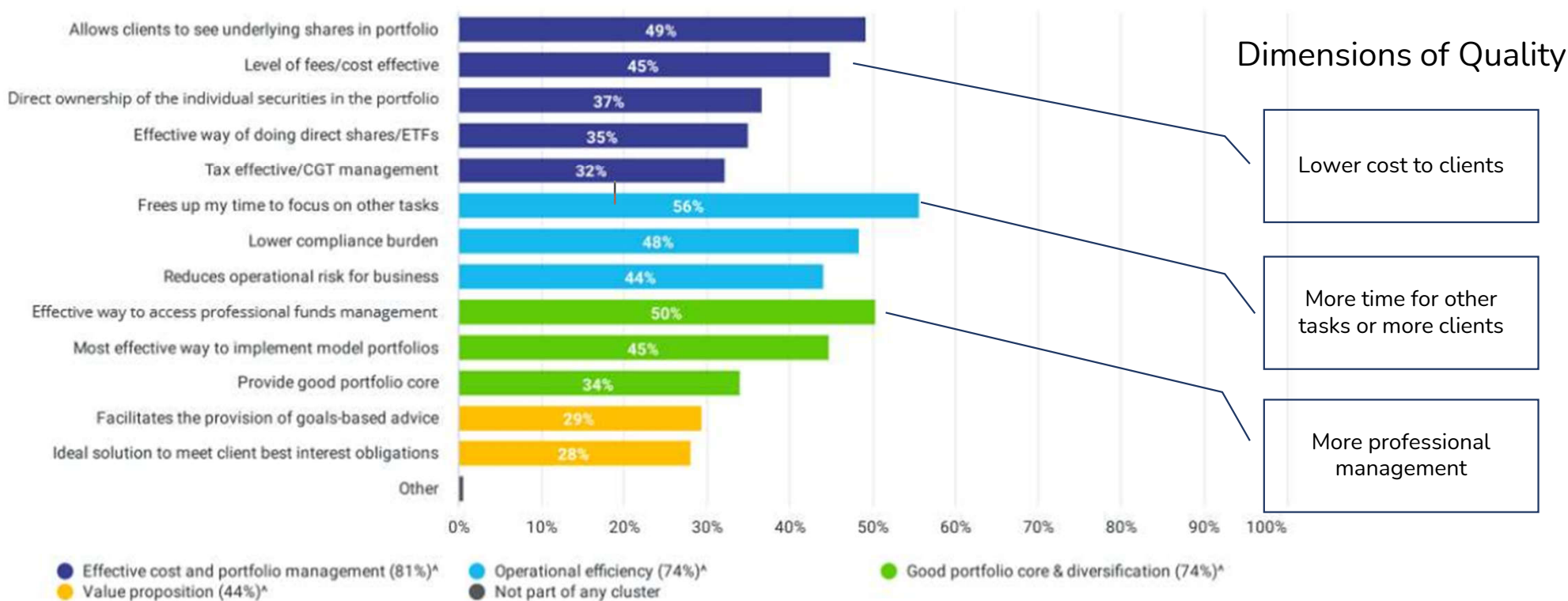
3-month delay: a 3-month delay saw 80% of excess return lost.

Chart: each dot represents the share of excess return lost due to delay for a rolling 3-year period. There are 834 such periods with weekly starting points since 2000. Every dot represents the average of 1,000 different active asset allocation simulations.



Can other processes deliver better outcomes at lower cost?

Q13 What do you see as the benefits of recommending managed accounts? (Multiple responses permitted)
Among current managed account advisers [n=299]



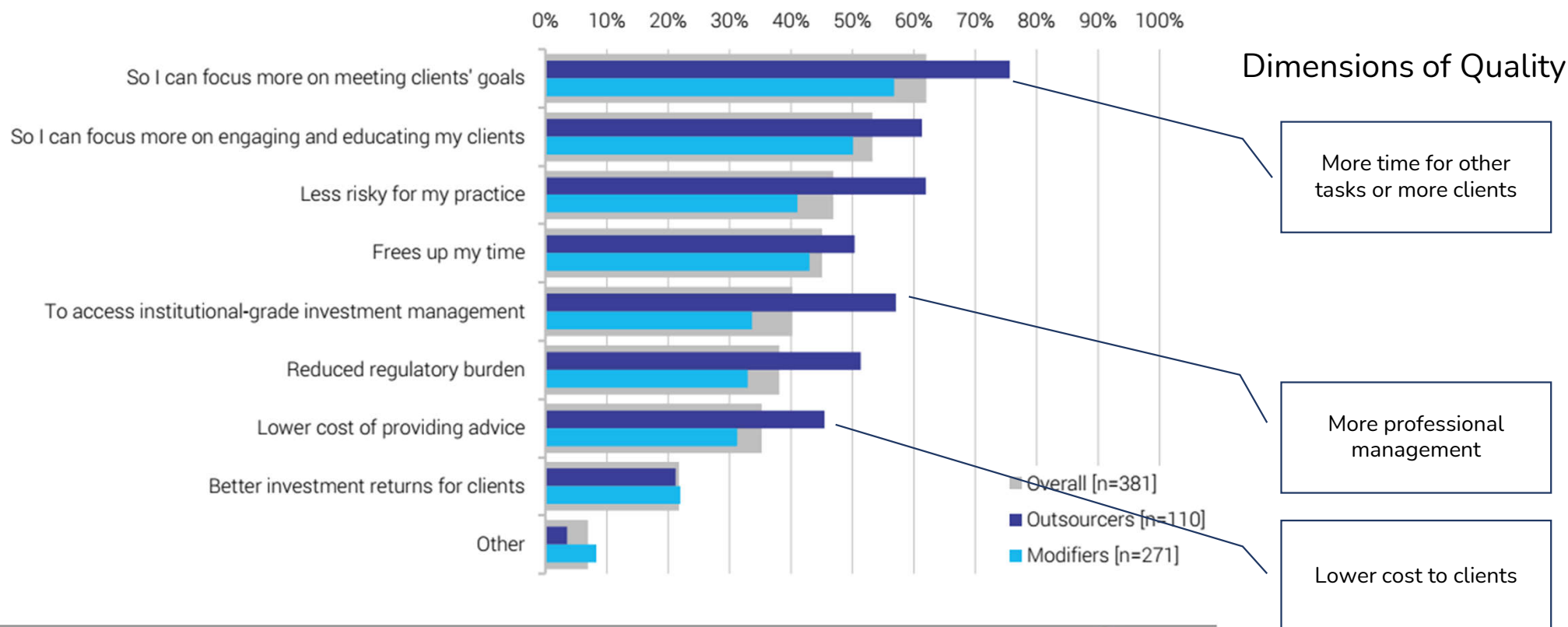
[^]Percentages account for overlaps

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Can other processes deliver better outcomes at lower cost?

Q3 Why do you outsource investment selection? (Multiple responses permitted)

By Adviser's involvement in investment selection. Among advisers who currently outsource investment selection



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Quality Delivered over Time

There is no single point in a client relationship more important than the initial SOA

But

In a 20 year advice relationship there are over 1000 weekly opportunities to add value through high quality investment decisions, implemented efficiently

Summary

- There is a national imperative to ensure Australians have access to quality advice. Over regulation has resulted in increasing disadvantage for consumers who have less wealth.
- Whilst costs have risen, supply of qualified experienced advisers has fallen too far.
- So what will make a meaningful change to reduce cost and increase access?
 - Halt the exits of advisers leaving
 - General and limited advice
 - Remove cost from regulatory overlap, simpler advice documents and less compliance prescription
 - Facilitate technology and solutions that increase an adviser's capacity to serve more clients ongoing

Questions

Upcoming Events

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About the author



Adrian Kwa B.Com CA.
Managing Director
Strategie3

I am driven to ensure Australians get access to high quality sustainable and professional advice that will look after them for their lifetime.

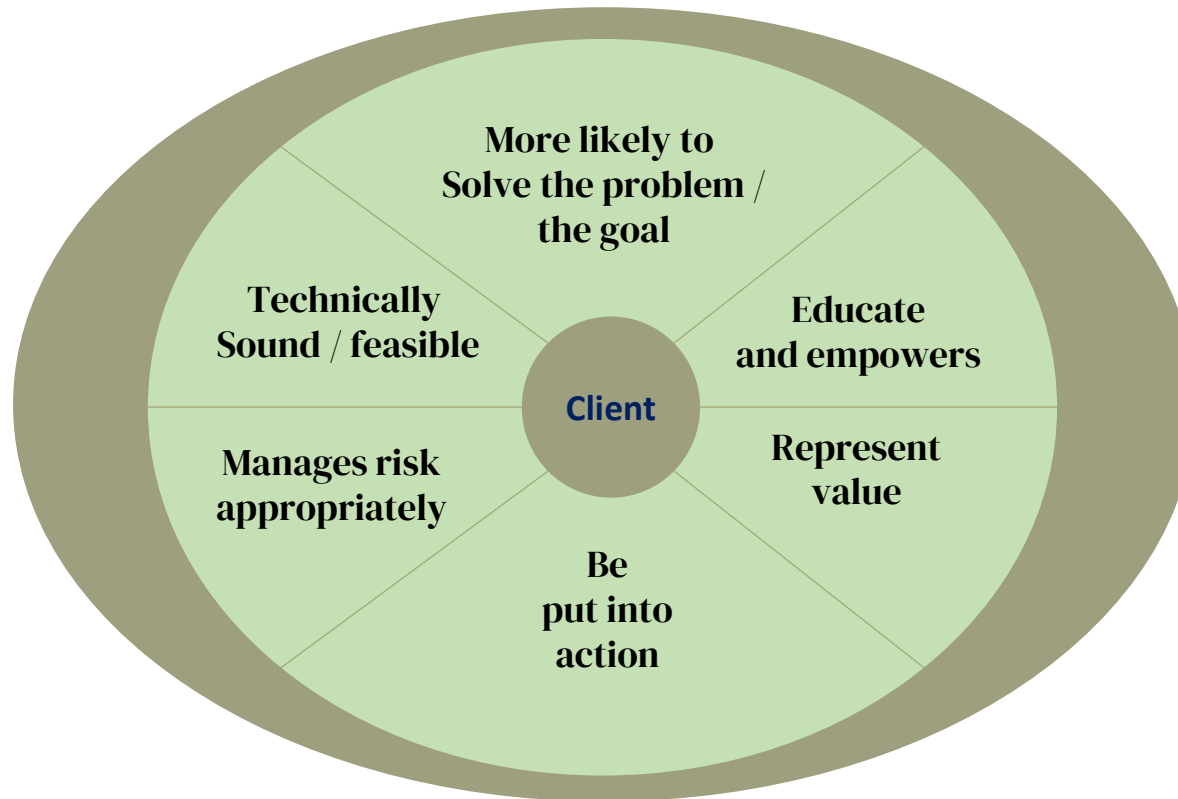
- Over 27 years of experience in Wealth Management and Financial Services, 17 of those in advice.
- Senior leadership in Advice
- Consulting, risk management and compliance background then Innovation, Strategy and running advice businesses.
- Led businesses that provided the digital and scaled advice, advice to retail consumers through to high net worth clients.

Strategie3 is a small independent consulting firm serving the Advice and Wealth Management industry. We specialise in Strategy, Execution and Risk Management consulting.

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Strategie3

How should quality be assessed?



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