



## IMAP Independent Thought Podcast

### Episode 35: How should Advice be improved?

**Bert VanManen & Pedro Marin Ramirez (Marin Wealth)** discuss:

- The biggest inefficiencies in the financial advice process today
- Improving the regulation around the creation of advice
- Legislation in response to Michelle Levy's Quality of Advice Review
- Impact on the new class of advisers (superannuation funds and insurance)

**Hosted by Emily Barlow (Perpetual Private)**

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This podcast series is not meant for retail investors, but instead is meant for financial advice, and investment professionals. Please refer to IMAP's website <https://imap.asn.au> for more details.

#### Emily Barlow - Perpetual (00:16):

Hello and welcome to episode 35 of the IMAP Independent Thought series, a podcast dedicated to helping managed account professionals stay up to date with views from a range of investment and advice experts.

My name is Emily Barlow and I am an investment director at Perpetual and your podcast host.

In today's episode, we'll be discussing how the advice process can be improved in Australia. We'll be touching on the regulatory hurdles and how we might overcome some of these issues

To discuss this significant topic, I'm joined by two expert guests, Bert VanManen, and Pedro Marin Ramirez.

Bert is the federal member of the Ford and is joining us, having recently introduced a private members bill to improve the regulation around the creation of advice.

Pedro is the founder and managing director of Marin Wealth, a self licensed advice firm based in Brisbane.

Welcome, Bert and Pedro. So if we jump straight into it, and we start with some of the inefficiencies that you're seeing in the financial advice process today and how the current regulations are either assisting or harming clients, Bert perhaps we start with you.

**Bert VanManen Federal Member - Ford (01:29):**

Well, the reason for my private members Bill was as a direct acknowledgement of the fact that I believe there is too much regulation, there's too much red tape, too much paperwork that is inhibiting the ability of advisors to provide cost effective advice to their clients.

I think the average cost now for a financial plan \$3,500 or more, and we all know that a large number of Australians or more Australians certainly need advice; particularly leading into retirement, but also throughout their life, and they just look at the cost of it and go, well, I'm not going to bother.

**Emily Barlow - Perpetual (02:11):**

Pedro, do you have anything to add on that?

**Pedro Marin Ramirez (02:13):**

Yes absolutely. Where do I start? There's just quite a few inefficiencies. I understand where this WWI guess, our current system legacy is but currently as it stands there's quite a few I guess not loopholes, but stop grids that mean we cannot trade as efficiently as we can.

If we look at the compares with other professions, the first is the classic SOA it's just a very obsolete paper. Like we, with clients on average, even if we force them to, they will not read 85, 60 page documents.

And basically because first of all, it's a lot of jargon that they don't understand in reality. They just wanted to just understand:

- how much does it cost?
- What are my benefits
- what are you going to get out of this?

**Pedro Marin Ramirez (03:11):**

And what type of products I'm comparing with and why is it in my best interest?

Generally, these 5 topics, we can do it in maybe 4 pages, or 5 pages. But realistically we're trying to cater for probably hundreds of people, and we can only cater for less than 150 each advisor.

So ideally, we want something that we can manage more efficiently in terms of our time, so there's less people involved.

We still need to do research. We need to compare why did you need these products? What products are in your best interest? What product will we use it that matches your strategy?

But right now it takes us at least 2 to 4 weeks just to do the SOA without including research. So if you compare us to an actual doctor, if you go to a GP practice, and they say, Hey, I know the exact pill you need, but I need to write a book about it, and you need to come back in 4 weeks, even though it might be urgent, but just come in 4 weeks because we cannot deal with you right now.

**Pedro Marin Ramirez (04:28):**

We actually have to do this. So I think as it sent, the SOA is probably the most inefficient part of our work.

Yes, there's a variety of other things, but in priority lists for us practitioners. SOA is probably the main thing that as it stands in the current system, I can go on and on about other things, for example, licensing and the whole system. But just to keep it in a timely manner, SOA is probably the most inefficient aspect of our job at the moment.

**Bert VanManen Federal Member - Ford (04:59):**

But Pedro, the reason the SOA is inefficient is because the regulatory environment is about the product. It's actually not about the strategic advice.

And the most important piece of work that you do as a financial advisor is the strategic advice.

But that's not recognised in the regulation. The regulation focuses on the product sale, but that's the end result of the strategic advice that you develop. And unless we can have a clear, concise discussion about the strategy, the purpose and the reason for that strategy in a 3, 4, or 5 page document linked to, (as I said in my private members bill) a letter of engagement, which clearly outlines the scope of that advice requested.

I've used the example of a 23-year-old tradie who wants an income protection policy, they don't need to go and talk to you about superannuation or a whole bunch of other stuff. You might mention the conversation, but that's not the advice piece because the advice piece is about an income protection policy, but it starts a relationship with a client that might lead to other things down the track.

At the moment, the expectation is you deal with every single issue in one sitting and give the client a 100 page document, which as you rightly point out, they never read.

**Pedro Marin Ramirez (06:26):**

That is correct. Actually, I forgot to point out as well, I think advice has changed so much in the last decade that the needs for clients have also changed. They come to us with needs that are not written law. We can't deal with, for example, someone's getting divorced, they just need some general advice.

And we still try to navigate somewhere around it because either, (depending on your license), most advisors say no, because my license doesn't allow me to do so.

If you've got other things, like for example first home buyers, there's very small things that we can just point out, but we can't deal exactly like you said, but we just need to give you a full, I can't say the word official or this is you know your actual advice because we can't deal with it. It's something so small and we can't charge you \$5,000 just to tell you to use the first home service saver scheme. It's very small, or if you do it, you have to be in the best in the client's best interest.

So to kind of go around it, but there's so many inefficiencies that I think <laugh>, we can be here all day,

**Bert VanManen Federal Member - Ford (07:37):**

But one of the reasons for structuring the way I did in the private members bill was to deal with that best interest duty. And I said well, here's the agreed scope of advice in the letter of engagement. Here's how I've done that. Here's how I've addressed that in the, in the record of advice.

Then you've dealt with the best interest duty, because you can clearly demonstrate the link between the advice you've provided that and that it's based on the scope of advice sought.

**Emily Barlow - Perpetual (08:10):**

So, but just speaking about the private members bill, we've touched on it a little bit, but could you just summarise at a very high level what the key features are of that bill?

**Bert VanManen Federal Member - Ford (08:21):**

So I think there's 3 key features.

One is the introduction of a letter of engagement is a formal part of the process. Now, I know plenty of advice firms that I've spoken to and plenty of my old friends in the financial planning industry already use letters of engagement as a matter of professional practice. So for a lot of businesses, that's not going to be a big change. And as Pedro said you look at a doctor, I looked at it from a lawyer's point of view, a lawyer uses a letter of engagement as a way of outlining what the legal advice being sought is, and then they go down the road of providing the advice.

The second bit is to replace statements of advice with records of advice. Now, the leave you review recommended we get rid of statements of advice altogether unless requested by a client.

**Bert VanManen Federal Member - Ford (09:15):**

Now I'm of the view that that's highly risky in an increasingly litigious environment and with organizations such as ACA and NAIC and others.

I believe there everything should be in writing. So there's a clear agreement between and understanding between the advisor and the client as to what's being provided, which is why I've recommended a record of advice be provided in all circumstances, not done away with.

The third part, which is a smaller part that has been raised with me by others in the industry, is a significant recognition. And that is professional privilege. And that we start to recognise financial planning as a profession, which I do believe it is.

You have a look at people that have been in the industry 30, 40 years. You can't tell me they're not professionals, because if they weren't, they wouldn't be in business.

**Bert VanManen Federal Member - Ford (10:14):**

So that's a broad outline of the bill. And the purpose of it was to create a foundation for us as a coalition going forward. If we are lucky enough to get into government at the next election to say, well, look, I think here's something we could do to start working on that process of simplifying and streamlining the advice process to pull cost out of it.

Going back to my young 23-year-old tradie who is wanting an income protection policy, the is am I going to pay \$3,500 for that? But, you know, for \$500 he might be willing to pay to protect his income. That's the sort of situation we need to get to.

So that covers some of the inefficiencies in terms of the advice process, but another issue with the system is the number of advisors that we have here in Australia.

**Emily Barlow - Perpetual (10:58):**

So, do any of, do either of you have any thoughts on how we best address that problem?

**Bert VanManen Federal Member - Ford (11:17):**

Well I think one of the ways, and you've seen the government introduce the legislation around qualified advisors. Now qualified, that's all well and good in big organisations, but I think there is an argument for, with the new model of providing a letter of engagement and a record of advice for simple advice, or more straightforward advice such as my income protection policy or maybe a simple super fund for somebody in their twenties.

We should be able to have younger advisors coming into the industry that can deal with those things in a more timely manner. You know, whether we review how the professional year works or those sorts of things. I think that makes it a much more attractive proposition.

The other proposition from my point of view is that we need to talk about financial advice or financial planning as a profession.

**Bert VanManen Federal Member - Ford (12:20):**

It's not a sales job and you're not selling product.

You are making recommendations to people about how to manage their finances that are going to hopefully set them up for the long term.

And you're looking to build a long term relationship with these people.

So it's a profession and one of the things I don't think the industry has done well over the years is sell its value proposition. And to me it's value proposition is the quality of the strategic advice that is provided.

As I said earlier, the product is an outworking of that. And I think if you sit down and have those discussions with graduates or people who are studying financial advice at university and start to demonstrate that to them, I think that's going to motivate some more people to come into the industry to create a new generation of advisors that we so desperately need.

**Emily Barlow - Perpetual (13:15):**

And Pedro sort of leading on from that what do you think the impact of the new class of advisor only able to give advice, advice on super and, and insurance actually is a topic we haven't touched on yet.

But that's also an issue in terms of under insurance across Australia. What are your thoughts on this new class of advisor only able to give advice on super and insurance?

**Pedro Marin Ramirez (13:40):**

Look there's definitely a need for it. I understand that in the short term this can fill in the gap for what is currently a huge under insurance piece on, on our Australians. I see it myself.

We're going to remove insurance from our offering, because it was just not economically viable for us. But we ended up not doing it because we actually care,

like we generally care and couldn't sleep. Just thinking of someone not having their sole bread earner in their house insured.

So, in the short term, it does play a part, like I understand. The only issue I guess we've had from the introduction was the name of the advisors I've considered this, I've even spoken to the shadow minister which basically I explained to him look, what do you think a qualified advisor means?

**Pedro Marin Ramirez (14:40):**

And he basically said, well this is someone who's qualified. It's wrong. It is not!

They are qualified to an extent. So, it was just the naming of the individual that we took an issue with because it will confuse the consumer.

It was mostly from the consumer point of view, not from us. We don't see that as a competition. There is a spot for it. I guess I am definitely pro that we need more people in. But as Burt correctly said, my point of view is more about how we can increase the number of advisors, first of all, it's going to take a while, but it's mostly based on what we can actually do, and emphasise that to a society. Like if I tell people, look, someone told me once straight to my face that if it wasn't for me, that person wouldn't have made it on a claim.

**Pedro Marin Ramirez (15:29):**

And she didn't actually mention the claim. She mentioned her life. She actually, because it was a mental health claim. And that I take that to my grave. I think that the impact I had on that family was that money was absolutely nothing to do with it. It was our involvement. And I think if we portray that into society, I guess because of how much the profession has been better in the last few years, the only media we get is if Melissa Cadis or anyone who is not even an advisor, but it's just deals with people's money... people's lives.

If we change the aspect of what we can do probably at a young age, like I've never heard a single kid say, I want to be a financial planner when I grow up.

**Pedro Marin Ramirez (16:17):**

Because they don't know it exists.

They don't know other professions there. I think we should probably may be increase our media awareness, probably go into schools, tell them what we do. We're as important as a doctor. We do have as much impact as a doctor. I think that will probably inspire kids to say I want to do that. I want to help families. I want to make sure that when I grow up you, families will depend on me as well.

So that aspect, I think is not an easy short term answer as in, we're going to have advisors next year. It'd probably be a decade before we get to healthy numbers. But if we do it the right way, it will create a momentum. Like kids should go into school, I want to be a lawyer. I want to be a financial advisor To that degree. I think it's where we should start.

**Emily Barlow - Perpetual (17:06):**

But coming back into regulation and legislation, the government did recently release the latest tranche in response to the quality of advice review. Do you think this will be

a meaningful improvement? And what are the chances of it being passed into legislation?

**Bert VanManen Federal Member - Ford (17:23):**

Well, given that we've got an election within the next 6 months I'm not even sure if we're back in February. So if we're not back for the 2 weeks in February, or even if we are given a range of other matters on their legislative agenda, I suspect the chances of it getting past this side of an election are pretty small. I understand what is trying to be achieved with this.

My career started back in the bank, and people used to be able to walk into the bank and you'd look at their bank account and go, you've got \$20,000 sitting in this bank account that's paying you next to no interest. Why don't you think about putting some money in a term deposit and then just send them down to the customer service officer, down to the customer service counter.

**Bert VanManen Federal Member - Ford (18:17):**

And they'd have a bit of a chat with them and they might put \$5,000 or \$10,000 into a term deposit that gives them a little bit more interest. Reality is you can't do that these days. Every single product in the universe has been wrapped up in the regulation and it's made everything so complex. Even I think term deposits now have to have a target market determinate determination. It's crazy. And that adds cost everywhere in the system. And so whilst I understand what they're trying to do with, qualified advisors in inverted commas to try and create a situation where within an organisation you've got people that are qualified to provide advice on that particular product and that particular product only.

I agree with Pedro. I'm not convinced that the term is correct. But it underscores part of the problem in that everything's been made so complex now that even simple pieces of assistance for clients potentially fall into the regulatory trap of providing financial advice. And I don't think that was ever the intent, but that's the outcome. And there is a recognition of the need in trying to fix that.

**Emily Barlow - Perpetual (19:40):**

So we've talked quite a lot about some of the hurdles and the statement of advice in the process in terms of opportunities for more people to receive better advice.

What other tools do people have? For example, what role might tech play in being able to make advice more scalable and more affordable? Pedro, perhaps I'll throw to you.

**Pedro Marin Ramirez (20:06):**

Yes, absolutely. So, I think AI will play a huge part in what we do. We currently use it at Marine Wealth, but it's because we're self licensed and we're able to take on the risk component of AI.

I think if we end up with an actual ROA type and even we currently use it to send out proposals. So we would go with a letter of engagement. It's basically written by AI. Our file notes come straight from our file notes. File notes actually are also written by AI. We are able, instead of what it used to take me probably 45 minutes to write an actual file note, it takes around maybe 2 to 3 minutes. So the efficiencies are there.

Obviously, it's again one of the inefficiencies in the licenses system, it's based on how much risk the licensee is willing to take.

**Pedro Marin Ramirez (21:08):**

And because AI has moved so fast, we don't know a whole bunch of things about it. Some licenses will not touch that. Like you do your own file note, you do the actual outcome of the letter yourself. And I do have to disagree with that to a degree because they're worried about sensitive data. But what is sensitive data? So your religion, your health, your address, your mobile phone.

There's a whole bunch of some sensitive data that would never be in a file note. A file note is more about strategy. The actual even if we send out an engagement proposal, it's very general. It's like, we spoke about this, this is the scope of advice. Are you comfortable with this? This is the outcome. Or this is the work we're going to do.

**Pedro Marin Ramirez (21:57):**

This is the quote that we estimate the work will be. Are you comfortable with that sign? Yes. Okay. Then we'll proceed for formal advice. Ideally, if Bert's bill comes in, it will be a step removed from our process <laugh>. Because then we don't have to have the SOA meeting. That meeting itself will be presenting the advice. And actually we'll send you the proposal, send what we discussed. Because it's a pretty comprehensive meeting we have before the SOA and the SOA meeting. They know that yes you explained to me why I need this insurance. You explained it to me. How much do I need? So I think technology will help us massively scale up. So I would consider 250 clients per advisor will be the norm because of how easy would be for us to trade, and how easy it would be for us to engage.

**Pedro Marin Ramirez (22:50):**

Because if you have a database of strategies, which could be like endless, you can just tell AI, Hey, this is the strategy. I'm thinking this is the amount, this is the research that backs it up. I just need you to write it. I need you to write that ROA. That may take us maybe an hour, to two hours. The research will be done, but the actual writing and the editing is what it takes longer. That's what AI will probably remove from our system. So, I think 5 years from now will be a completely different scenario from the absorption of AI.

**Emily Barlow - Perpetual (23:25):**

That's great to hear. And I'm conscious that we're running up on time already, so I'll just hand over very briefly to each of you for any closing remarks that you'd like to leave our audience with before we wrap up for today. Bert perhaps I'll start with you.

**Bert VanManen Federal Member - Ford (23:40):**

Well, thanks Emily, and can I thank Pedro for his input into this discussion as well. And look I would want to say generally to the advisors that will listen to this, I want to thank the industry for the work that it does. I think as Pedro rightly pointed out, the industry gets, (or the profession gets) a lot of brick bats. But by and large, the profession does an enormously good job for millions of Australians each and every

day helping them build their wealth, and building their financial resources for themselves and for their family.

So can I take this opportunity to thank everybody in the profession for the job that they do? And I look forward to what 2025 has to bring. I think there are some tremendous opportunities. Pedro has just touched on it with AI.

**Bert VanManen Federal Member - Ford (24:34):**

But if we make the regulatory environment clearer and more transparent, the opportunity to use AI becomes even more relevant. But at the end of the day, you know, we can use all of the technology we like in the world, but I still think it comes down to a personal relationship with the client.

And we should never, ever dismiss the value of that. And I was actually at an event on Friday afternoon. I had a gentleman come up to me who was one of my former clients. And he said, yes, I was disappointed when you moved on because the new advisor wasn't as good as you were. So <laugh> that was a nice bit of feedback 12 years down the track.

But that personal relationship, AI will never replace that because when you're sitting across the table from somebody and you can see their facial expression or their tone of speech and you have a discussion, you can pick things up that may lead to you asking a question that they hadn't even thought about themselves.

**Bert VanManen Federal Member - Ford (25:49):**

And that's the value of the personal relationship. So thank you to everybody that does that each and every day.

**Emily Barlow - Perpetual (25:56):**

Thank you, Bert and Pedro, over to you.

**Pedro Marin Ramirez (26:00):**

Look, mine's probably shorter. I just want to thank Bert for your help. We sometimes as practitioners understand that making law is probably one of the most difficult things in society. It takes time and the unintended consequences of a law sometimes just takes time for us to understand what happened. So we get it, but this is taking so long since the recommendations, it's just been way too long.

We are definitely running on fumes. Absolutely every single advisor out there will never tell you, oh I'm low on business because it's the complete opposite.

It's is a good environment to trade. I won't lie. We are able to pick our clients. So we have right now quite a bit of power over how we trade, but we genuinely feel that we can do more for society, and thanks to a bill that you passed, that fingers crossed, that actually can make it happen ASAP because we desperately need your help or anyone's help too<laugh>.

So yes I appreciate everyone today for having us

**Bert VanManen Federal Member - Ford (27:15):**

Hopefully we get into government in 2025.

**Emily Barlow - Perpetual (27:17):**

Well thank you Bert and Pedro, and thanks to our audience for listening to today's episode.

We've covered a lot of ground from the inefficiencies in the financial advice process and the impact of regulation to the worrying decline in life insurance coverage and what that means for Australians.

Financial security, high quality financial advice should be a key aspect of financial wellbeing for Australians. Yet many are unable to access it, but as we've heard today, perhaps a few small tweaks could make a material difference.

Thanks for tuning in and if you found today's discussion valuable, please subscribe, leave a review, and share with your network.

We'll be back soon for more insights to help you navigate the ever evolving landscape of financial advice.

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