Financial Advice Regulatory Reform

FULL REPORT

The impact of cost and access to financial advice for lower socio-economic consumer groups.

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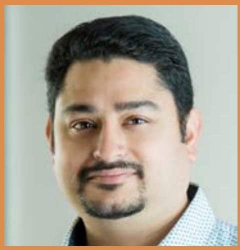

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> Consumers are unaware of the value of financial advice, particularly in retirement planning and superannuation.

Design by The Set Up

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1 Introduction

1.1 Background

Access to financial advice is both essential and beneficial to consumers as it promotes financial literacy, improves financial independence and has fiscal benefits through lower reliance on the government for retirement income adequacy. In the Australian context, industry studies have shown that consumers who access financial advice benefit financially as a result, even after the cost of the advice is considered.

The financial benefits of advice can include increased savings, less interest expense through faster debt reduction or higher investment returns (ASIC, 2010). In addition, people who receive ongoing financial planning advice (13%) experience greater levels of overall personal happiness (IOOF, 2015), while a majority (77%) believe that financial advice helps them feel prepared for retirement (SunSuper, 2015).

In Australia, recent findings and recommendations arising from the Hayne Banking and Finance Royal Commission into misconduct in the Banking, Superannuation and Financial Services Industry and continued pressure from the earlier Future of Financial Advice (FOFA) reforms, have led to fundamental changes in the operation of the broader Financial Planning sector.

These changes have been suggested as adversely affecting financial advice business models, resulting in a perfect storm. Increased costs have resulted in advisors increasing fees for advisory services impacting client revenues. Costs have increased due to increased compliance and education requirements. Simultaneously, a shift from hidden commissions, back-end revenue streams paid directly from investment products towards fee for advice services have raised advisors' costs.

Fee increases and the departure of financial advisers from the industry due to a large number of regulatory reforms have raised concerns that advice will become inaccessible to many Australians, particularly those from lower socio-economic groups and other financially vulnerable sections of the populations, e.g., women.

Three key impacts are possible for the financial advice sector. First, the increased regulatory and compliance requirements for licensees and their financial advisers, will increase the adviser's cost of provision in the form of increased documentation, analysis and legislative compliance. Second, the removal of financial subsidies for licensees from product manufacturers in the form of product commissions has increased the costs of advice licensing. Third, the legislated removal of grandfathered commissions and process upheaval with higher scrutiny of ongoing advice fees has seen revenues decline for financial advisers.

With costs rising and sources of revenue decreasing, there are fears of an advisor exodus, with Adviser Ratings expecting the number of advisers to slump by 36 per cent over the next five years (Collett, 2020).

There is very limited academic research that reflects on these recent regulatory changes in the financial planning sector. The goal of this research project is to form the foundation for a comprehensive analysis of the impact that barriers to advice access will have on the financial health of Australians, in particular, women and lower socio-economic population groups. The findings from this study will facilitate the formulation of policy by regulators, government and industry bodies which will help consumers with advice fees from a broad range of superannuation funds, design a superannuation tax rebate for advice fees and reduce compliance requirements for women and lower socio-economic consumers.

1.2 Objectives

There are three key objectives of this research:

1. To assess the impact of recent regulatory reforms on advice processes and operational costs and its effects on the cost of providing quality financial advice to consumers, including women and those from lower socio-economic groups.
2. To assess the lower socio-economic groups most impacted by changes to the cost of financial advice, the value derived by these groups from financial advice and the impact of changes to the cost of financial advice on take-up.
3. To provide input to the policy initiatives available to government, industry bodies and regulators to address the implications of increasing the cost of financial advice for lower socio-economic and financially vulnerable consumer groups and their ability to access the advice.

1.3 Research team and sponsors

This research was jointly lead by Professor Chandra Krishnamurti and Mr Geoff Pacecca.

Professor Krishnamurti is the Professor of Finance, and Mr Pacecca is a Lecturer in Financial Planning at University of South Australia (UniSA) Business unit. Geoff is also the Principal Adviser and founder of Adelaide -based financial planning firm, GAP Financial.

Other research team members are Associate Professor Rajabrata Banerjee, Associate Professor Kartick Gupta and Lecturer in Finance and Financial Planning, Mr. Ron McIver.

All team members are affiliated with the Centre for Markets, Values and Inclusion (CMVI) at UniSA.

This research project received funding support from three external stakeholders – Magellan Asset Management Ltd, Centrepoint Alliance, and The Financial Planning Association through their Academic Research Grant Scheme within the Financial Planning Education Council of Australia (FPEC)

The project was funded in December 2020 for a 12 month duration with an expected release of research findings in mid 2022.

2 Methodology

2.1 Research Design

The research utilises survey methods for the collection of the required primary data, with questionnaires targeting consumers and financial advisers. Two sets of surveys were designed, separately targeting the consumers and financial advisers. Using Delphi-style technique gathering, a panel of experts' opinions were independently sought for the draft questions, then the questions were refined over multiple rounds to develop the final survey questions. This ensured that the study had the scope to provide information appropriate to the research objectives.

The consumer survey had three important parts. Each part consisted of a set of targeted questions. The first part included 14 questions that captured the consumers' demographic and socio-economic status which included their age, gender, ethnicity, education level, assets, employment status, superannuation level, etc.

The second part captured the value of financial advice for those consumers who were already receiving advice and the final part (13 questions) captured the expected value of financial advice for unadvised consumers and the conditions under which they are willing to receive financial advice from professional advisers.

> the study had the scope to provide information appropriate to the research objectives

Similarly, the financial adviser survey had four important parts with multiple questions in each part. The first part included 11 questions that captured the demographics of financial advisers; their licensing status, age, gender, education, type of financial advice they provide and number of clients they serve, etc.

The second part included 12 questions that focussed on the drivers for the rising cost of providing financial advice and verification of these drivers in the context of the clients they provide these services to.

The third part had eight questions that captured the impacts of rising cost, possible solutions, loss of clients and impacts on client's affordability, etc.

The final part captured the implications of the rising cost of advice, including financial planner exit from the industry and reasons for this.

2.2 Survey Instruments

The Consumer Survey

The consumer survey targeted the following consumer profile: over the age of 50, adequate coverage of lower socio-economic groups defined by households with superannuation assets less than $250,000, or single-person households with less than $150,000 in superannuation assets or as per ABS survey as noted below.

There was an equal representation of male and female participants and the socio-economic status of consumers. Additional analyses using the ABS Relative Index of Socio-Economic Advantage based on post-code of respondents was also used to enhance the validity of the analyses. It has been ensured that at least 30% of the participants currently receive or have received financial advice in the past. The survey process was conducted and managed by Qualtrics.

The Financial Adviser Survey

The financial adviser survey targeted financial advisers from all sectors, including self-employed and salaried advisers (licensed and self-licensed), industry funds and large financial institutions, all dealing with clients in the 50-65 age group planning for their retirement, but with lower levels of retirement assets. These clients potentially face cost barriers for accessing financial advice. The survey process was managed through the use of UniSA's subscription with Qualtrics.

Both surveys passed the UniSA Research Ethics Committee approval to utilise the survey questionnaires in this research.

2.3 Sample

The survey collected 113 responses from financial advisers using a link to the survey on the Qualtrics platform. However, 26 responses were incomplete and excluded by the UniSA research team. The team also excluded a further 12 responses as those survey respondents completed the survey in less than 100 seconds. Therefore, the final sample size for the financial adviser survey was 75. Qualtrics assisted in collecting the consumers' data. Specifically, they collected 160 responses where the consumer's age was above 50 and at least 30 per cent of that group either receive or have received financial advice in the past. The results show an almost equal split between male and female respondents.

2.4 Data Collection

This study used Qualtrics and the survey link was sent electronically by email to consumers who met the selection criteria as highlighted in section 2.3. The database for consumers was sourced directly by Qualtrics who specialise in building surveys and finding respondents by partnering with over 40 different global panel providers to ensure depth of coverage for hard-to-reach target audiences.

The financial adviser data was collected with the assistance of the Financial Planning Association of Australia (FPA) who promoted the survey within FPA mailings to their member registration distribution list. In addition, a specific group of financial advisers where targeted from adviser networks directly accessible to the research team.

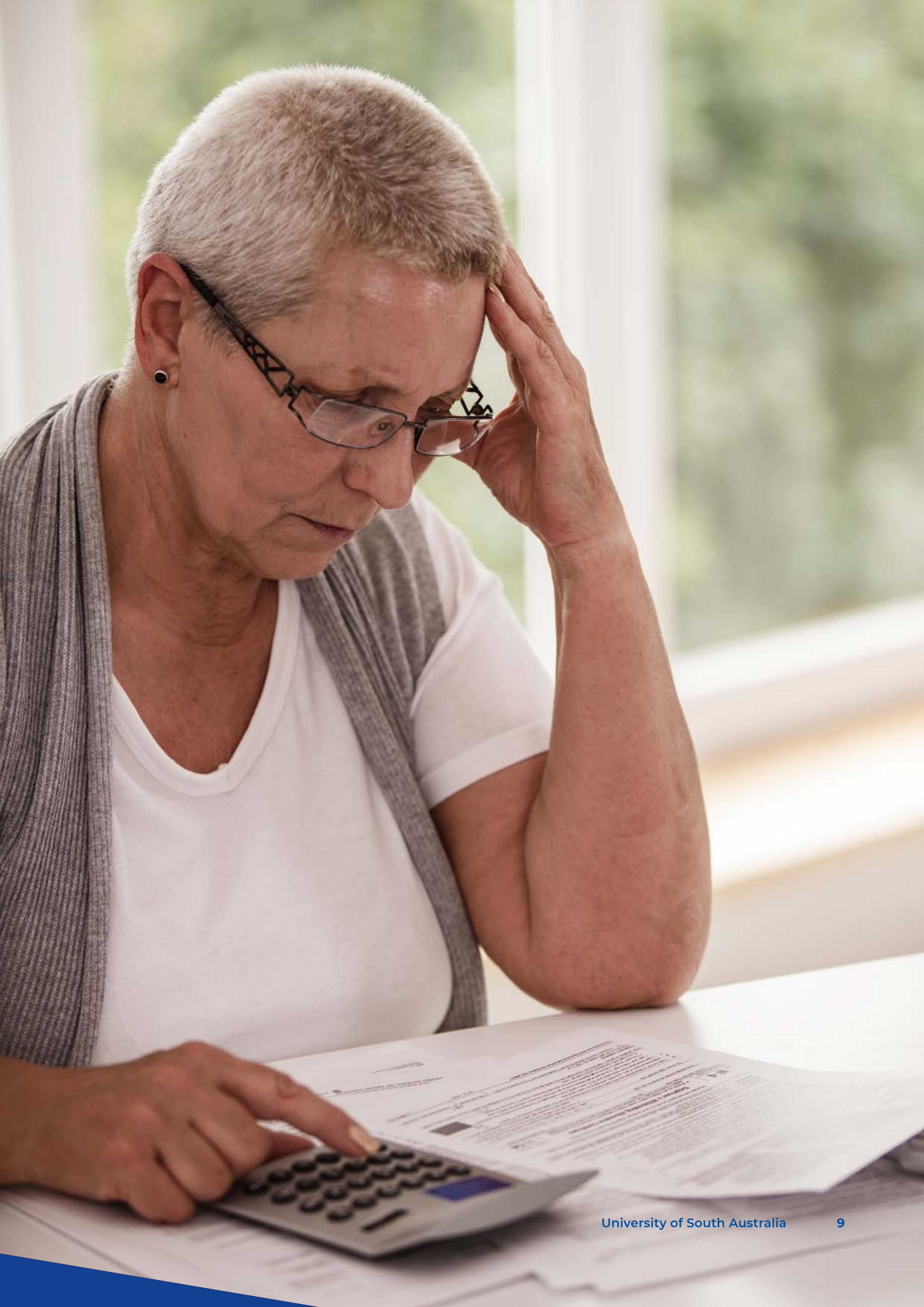
Regarding data quality, the Qualtrics platform automatically excluded the fastest third of participants and straight liners to increase the overall quality of data received, especially open-ended responses. Further the Qualtrics platform used routers and other sophisticated digital fingerprinting and de-duplication technology to ensure the same person only completed a survey once. Fraudulent responses were not recorded and robots didn't have access to the survey.

2.5 Data Analysis

Qualitative and quantitative analysis was undertaken on both primary and secondary data collected for the study. Basic statistical data was processed through Stata, with quantitative tools used to determine what factors most influenced consumer demand for and use of financial advice. The survey data was retrieved in the csv format and then imported into Stata for analysis.

2.6 Limitations

One of the key limitations of the survey was that the respondents were anonymous. As such, it was difficult to verify the responses against the true circumstances. Further, due to the Covid-19 pandemic, the responses may have been biased, although this has been controlled in the survey as few questions captured the impact of Covid-19 on financial decision making. Although there were 75 responses from the financial advisors and 160 responses from the consumers, a more comprehensive response from people from different cities, ethnicity, culture, age and income etc. may have been more insightful.



3 Results

3.1 Consumer Survey The Advised Consumer

3.1.1 Value of Financial Advice

Our survey queried advised consumers about the value of eight areas of financial advice: investing; superannuation; budgeting; retirement planning; Centrelink advice; life, income protection and other personal insurances, aged care and wills.

We asked each respondent to rank each area of advice from 'not valuable' to 'extremely valuable'. The set of responses for the sample of 48 advised consumers shows considerable variation in the average value placed on financial advice (Table 3.1) and for specific areas of advice (Table 3.2).

Table 3.1: Ranking of value placed on financial advice, advised consumer responses (%)

Value placed	Full Sample	Female	Lower Socio-Economic Group
Not valuable	19.27	14.20	14.84
Somewhat valuable	19.79	20.45	19.53
Moderately valuable	21.88	24.43	28.13
Very much valuable	19.01	12.50	18.75
Extremely valuable	20.05	28.41	18.75

Note: The eight areas of financial advice summarised are: investing; superannuation; budgeting; retirement planning; aged pension advice/Centrelink advice; life, income protection and other personal insurances, aged care, and wills.

Membership of the lower socio-economic group for this survey is defined by households with superannuation assets less than $250,000, or single-person households with less than $150,000 in superannuation assets.

Overall, the full sample of responses showed a relatively uniform ranking over the average of the eight areas of financial advice identified, with approximately 20 per cent of responses falling within each ranking category (Table 3.1). However, female respondents' rankings showed a greater degree of clustering around the 'moderately valuable' and 'extremely valuable' rankings. Those identified as being in a lower socio-economic group were more likely to rank financial advice as being 'moderately valuable'.

With regards to specific areas of financial advice, advised consumers generally ranked advice on superannuation and retirement planning more highly than other advice areas (Table 3.2). In the case of superannuation, 58.33 per cent of respondents ranked it as ‘very much valuable’ or ‘extremely valuable’, while only 6.25 per cent ranked it as ‘not valuable’.

For retirement planning these percentages were 54.16 and 14.58 per cent, respectively. However, life, income protection and other personal insurances, ranked overall as much lower in value to the advised consumer, with 66.66 per cent ranking it as only ‘somewhat valuable’ or ‘not valuable’. Aged care advice was also ranked by advised consumers as having a lower overall value, with 52.08 per cent of respondents ranking it as ‘somewhat valuable’ or ‘not valuable’, and only 12.50 per cent ranking it ‘extremely valuable’. Budgeting also ranked lower than superannuation and retirement planning, with only 31.25 per cent of respondents ranking it as ‘very much valuable’ or ‘extremely valuable’. Advice areas such as investing, aged pension advice/Centrelink advice and wills were predominantly ranked as being ‘moderately valuable’ to ‘extremely valuable’ by advised consumers.

Table 3.2: Ranking of value placed on financial advice, advised consumer responses by area of advice (%)

Value placed	Investing	Superannuation	Budgeting	Retirement planning	Age pension/ Centrelink advice	Life, income protection and other personal insurances	Aged care	Wills
Not valuable	16.67	6.25	25.00	14.58	16.67	39.58	27.08	8.33
Somewhat valuable	18.75	18.75	16.67	12.50	20.83	27.08	25.00	18.75
Moderately valuable	20.83	16.67	27.08	18.75	18.75	18.75	22.92	31.25
Very much valuable	22.92	33.33	12.50	27.08	25.00	2.08	12.50	16.67
Extremely valuable	20.83	25.00	18.75	27.08	18.75	12.50	12.50	25.00

While informative, the above results for the full sample of respondents was not always representative of patterns of response to each area of advice offering by gender or socio-economic status. When developing both strategy and policy alternatives, industry and policy makers need to acknowledge the significant differences in the perceived value of each area of financial advice by these respondent sub-groups.

While broadly the same as the overall set of respondents to advice about investing, female advised consumers differed in their ranking of several other advice areas. In the case of superannuation advice, 63.64 per cent of female respondents ranked it as 'very much valuable' or 'extremely valuable', against 58.33 per cent of advised respondents. Budgeting was also more valued by female respondents, with 31.82 per cent ranking it as 'extremely valuable' compared to 18.75 per cent of all respondents. 40.91 per cent of female respondents ranked retirement planning advice as 'extremely valuable' (Table 3.3), a result much larger than the 27.08 per cent for the full sample of respondents (Table 3.2).

In general, female respondents also ranked advice in the areas of aged pension, Centrelink, life, income protection and other personal insurances, aged care and wills more highly than for the full sample, suggesting that female advised consumers place a greater value on financial advice overall.

Table 3.3: Ranking of value placed on financial advice, advised consumer responses by area of advice, female respondents (%)

Value placed	Investing	Superannuation	Budgeting	Retirement planning	Age pension advice/ Centrelink advice	Life, income protection and other personal insurances	Aged care	Wills
Not valuable	13.64	9.09	18.18	18.18	9.09	22.73	18.18	4.55
Somewhat valuable	18.18	13.64	9.09	9.09	27.27	31.82	27.27	27.27
Moderately valuable	22.73	13.64	27.27	27.27	22.73	27.27	27.27	27.27
Very much valuable	22.73	22.73	13.64	4.55	18.18	0.00	9.09	9.09
Extremely valuable	22.73	40.91	31.82	40.91	22.73	18.18	18.18	31.82

When considering the results by socio-economic status, important cohort differences were identifiable. For investing, 31.25 per cent of advised consumers in the lower socio-economic group ranked it as 'moderately valuable' (Table 3.4), against 20.83 per cent overall. This cohort of advised consumers displayed similar patterns to the full sample with relatively high proportions ranking superannuation, budgeting, life, income protection, other personal insurances and aged care advice as being 'moderately valuable' (Table 3.2). However, aged pension/Centrelink advice was generally perceived as more valuable by this group, with 31.25 per cent ranking it as 'very much valuable' compared to 25.00 per cent for the full sample.

Table 3.4: Ranking of value placed on financial advice, advised consumer responses by area of advice, lower socio-economic group (%)

Value placed	Investing	Superannuation	Budgeting	Retirement planning	Age pension advice/ Centrelink advice	Life, income protection and other personal insurances	Aged care	Wills
Not valuable	12.50	0.00	25.00	12.50	18.75	31.25	18.75	0.00
Somewhat valuable	18.75	18.75	12.50	6.25	18.75	25.00	31.25	25.00
Moderately valuable	31.25	25.00	43.75	18.75	12.50	31.25	31.25	31.25
Very much valuable	12.50	37.50	0.00	37.50	31.25	0.00	6.25	25.00
Extremely valuable	25.00	18.75	18.75	25.00	18.75	12.50	12.50	18.75

Note: Membership of a lower socio-economic group for this survey is defined by households with superannuation assets less than $250,000, or single-person households with less than $150,000 in superannuation assets.

In addition to ranking the value of advice, our survey also sought to determine the dollar amount that advised consumers were willing to pay for financial planning advice (Questions 16 and Q17). Question 16 asks "What do you think is a reasonable initial-one-off fee for a comprehensive financial plan?", while Question 17 follows this up with "What do you think is a reasonable fee for an annual review (check-up) of your financial plan?". Table 3.6 provides a summary of those responses.

Table 3.6: Value placed on financial advice, advised consumers by dollar amount (%)

	Full Sample	Female	Lower Socio-Economic Group
Reasonable initial, one-off fee for a comprehensive financial plan			
$0 – $999	70.83	72.73	56.25
$1,000 - $1,999	16.67	13.64	31.25
$2,000 - $2,999	6.25	4.55	6.25
$3,000 – $4,999	6.25	9.09	6.25
$5,000 – $6,999	0.00	0.00	0.00
>$7,000	0.00	0.00	0.00
Reasonable fee for an annual review (check-up) of your financial plan			
$0 – $999	87.50	81.82	75.00
$1,000 - $1,999	8.33	13.64	12.50
$2,000 - $2,999	2.08	4.55	6.25
$3,000 – $4,999	2.08	0.00	6.25
$5,000 – $6,999	0.00	0.00	0.00
>$7,000	0.00	0.00	0.00

Note: Membership of the lower socio-economic group for this survey is defined by households with superannuation assets less than $250,000, or single-person households with less than $150,000 in superannuation assets.

A key feature of the data presented in Table 3.6 is the low dollar amount that most advised consumers identified as reasonable to pay for both initial and annual advice. 70.83 per cent suggested a value range of $0 – $999 as reasonable for initial development and implementation of a comprehensive financial plan, while only 6.25 per cent indicated an initial fee of $3,000 – $4,999 as reasonable.

87.50 per cent of respondents identified a value range of $0 – $999 as being reasonable for an annual review. Withstanding major differences found for sub-groups in Table 3.6, the greater average dollar amount placed on both initial advice and annual review was by those classified as being in the lower socio-economic group.

3.1.2 Implications for Advised Consumer Demand for Financial Advice

The low level of fees suggested as being reasonable by survey respondents, contrasts starkly with the level of fee required to cover regulatory and business costs by financial advisers, with the most common average initial one-off advice fee charged ranging from $2,000 - $2,999 (see Section 3.3, Table 3.11).

Not surprisingly, there was considerable variation amongst surveyed advised consumers regarding their potential for continued use of financial adviser services, with 29.17 per cent of respondents indicating the negative, and 31.25 per cent being unsure (Table 3.7). However, as with the higher average dollar amount placed on advice, those classified as being in a lower socio-economic group identified a greater likelihood of continuing with advice at 50 per cent, compared to 39.58 per cent overall. Also notable is the greater proportion of female respondents, relative to those in the sample overall, indicating they were 'unsure' about continuing to seek financial advice.

Table 3.7: Whether the consumer will continue to seek the help of a financial adviser in the future, advised consumers (%)

	Full Sample	Female	Lower Socio-Economic Group
Yes	39.58	40.91	50.00
No	29.17	18.18	37.50
Unsure	31.25	40.91	12.50

3.2 Consumer Survey The Unadvised Consumer

3.2.1 Value of Financial Advice

Overall, unadvised consumers don't value financial advice. In responding to Question 21, "Do you think financial advice would be of value to you?", 79.46% of the 112 unadvised consumers responded in the negative. Of these 36.61% identified "I don't think I can afford financial advice", 33.93% "I don't trust financial advisers" and 29.46%" I don't know where to find a good financial adviser".

However, while overwhelmingly negative on the potential value of financial advice, differences in perceived benefit were present in the sub-group of the unadvised consumers. A higher proportion of unadvised female respondents (25.86% versus 20.54%) indicated that they would benefit from receipt of financial advice (Table 3.8). That noted, the proportion of unadvised consumers from a lower socio-economic group believing advice would be valuable was lower at 13.79 per cent than the full sample rate of 20.54 per cent (Table 3.8).

Table 3.8: Response to "Do you think financial advice would be of value to you?", unadvised consumers (%)

	Full Sample	Female	Lower Socio-Economic Group
Yes	20.54	25.86	13.79
No	79.46	74.14	86.21

Note: Membership of a lower socio-economic group for this survey is defined by households with superannuation assets less than $250,000, or single-person households with less than $150,000 in superannuation assets.

> "while overwhelmingly negative on the potential value of financial advice, differences in perceived benefit were present"

3.2.2 Demand for Financial Advice

Responses about fee assistance for financial advice through payment from personal superannuation, suggested a low level percentage of unadvised consumer acceptance. Only 11.24 per cent of unadvised consumer respondents indicated that they would be willing to pay through this method (Table 3.9). Of these, all placed a value of $0 – $999 as the amount they would be willing to pay this way. In the case of fees partly subsidised by a government rebate, a higher proportion of unadvised respondents indicated willingness to pay for advice (24.72%), although female respondents (16.28%) appeared much less likely to be willing to engage with an adviser under this structure (Table 3.9). Again, there was a low value placed on fees that respondents would be willing to pay, with 95.45 per cent identifying a range of $0 – $999, and 4.55 per cent a range of $3,000 – $4,999.

Table 3.9: Willingness to pay through superannuation or with government subsidy, unadvised consumers (%)

	Full Sample	Female	Lower Socio-Economic Group
Advice fee paid through superannuation			
Yes	11.24	11.63	10.00
No	88.76	88.37	90.00
Advice fee partly funded with a government rebate			
Yes	24.72	16.28	22.00
No	75.28	83.72	78.00

Note: Membership of the lower socio-economic group for this survey is defined by households with superannuation assets less than $250,000, or single-person households with less than $150,000 in superannuation assets.

3.3 Financial Adviser Survey

Section 3.1.1 provided a summary and discussion of the advised consumers' perceptions of the value of the different areas of financial advice offered /received by them (Table 3.2). Table 3.10 presents a summary of the relative value placed by financial advisor clients on the specialist areas of advice offered in their businesses, allowing comparison of similarities and differences between the two groups' relative rankings. Adviser responses are ranked from 'limited value', corresponding to 'not valuable' and 'moderately valuable', to 'very valuable', corresponding to 'very much valuable' and 'extremely valuable', respectively, in the advised consumer responses.

Financial advisers' perceptions of their clients ranking of the value of financial advice (Table 3.10) differ substantially from the advised consumers' actual rankings of this advice (Table 3.2). Over each of the eight advice areas identified, advisers perceived that their clients ranked the value of six specific areas higher than their clients' actual rankings and two lower.

Areas in which advisers perceived higher rankings were (adviser vis-à-vis client ranking): retirement planning - 93.33 versus 54.16 per cent; investing - 82.67 versus 4.75 per cent; superannuation - 85.33 versus 58.33 per cent; life, income protection and other personal insurances - 40 versus 14.58 per cent; aged care - 48 versus 25 per cent; and age pension/ Centrelink advice - 66.67 versus 43.75 per cent. Areas where advisers perceived client rankings were lower than actual client rankings were estate planning (wills) at 28 versus 41.67 per cent and budgeting, at 20 versus 31.25 per cent (Tables 3.10 and 3.2).

Table 3.10: Perceived client ranking of value placed on financial advice, advisor responses by area of advice (%)

Perceived value to clients	Investing	Superannuation	Budgeting	Retirement planning	Age pension advice/ Centrelink advice	Life, income protection and other personal insurances	Aged care	Estate planning
Limited Value	2.67	1.33	40.00	1.33	9.33	16.00	16.00	16.00
Moderately Valuable	14.67	13.33	40.00	5.33	24.00	44.00	36.00	56.00
Very Valuable	82.67	85.33	20.00	93.33	66.67	40.00	48.00	28.00

3.3.1 Cost of Financial Advice

Table 3.11 summarises information on the level of fees charged by our sample of licensed financial advisers. Of the 75 respondents, 73.33 per cent (26.67%) of financial advisers are authorised representatives of a licensee (self-licensed), with 74.67 per cent (25.33%) being self-employed authorised representatives (salaried authorised representatives).

88 per cent of advisers indicated they charge fees of $2,000 or more for initial advice, with 60 per cent of respondents indicating a fee range of $2,000 – $3,999 for this service. Fee ranges for the annual review most often exceed a range of $2,000 – $2,999, with 61.33 per cent of respondents specifying an annual review fee of $3,000 or more.

Of the surveyed advisers included in the sample, 80 per cent have increased their fee for initial advice over the last three years, while 88 per cent have increased their annual review fees over this period. In the case of fees for initial advice, increases of between 11 - 20 and 21 - 30 per cent were most common, with 56.66 per cent of advisers indicating one of these ranges (divided equally across the two increase ranges), while 38.33 per cent of advisers increased fees by over 30 per cent (Table 3.12).

Table 3.11: Average fee ranges charge by responding financial advisers (%)

Fee range	Adviser responses
	Initial Advice
<$1,000	2.67
$1,000 -$1,999	9.33
$2,000 - $3,999	60.00
$4,000 – $5,999	13.33
$6,000 – $8,000	12.00
>$8,000	1.33
Other	1.33
	Annual Review
<$1,000	1.33
$1,000 -$1,999	8.00
$2,000 - $2,999	29.33
$3,000 – $4,000	32.00
>$4,000	28.00
Other	1.33

Table 3.12: Percentage increase in initial one-off advice fee, participating advisers (%)

Level of increase	Adviser responses
Less than or equal to 10%	5.00
Between 11% to 20%	28.33
Between 21% to 30%	28.33
Between 31% to 40%	18.33
Between 41% to 50%	6.67
More than 50%	13.33

3.3.2 Reasons For The Rising Cost Of Financial Advice

Of the 75 licensed financial advisers who completed the survey questionnaire, 96 per cent identified, that the time taken to prepare, deliver and complete the service (initial advice or annual review) has increased in the last three years. In the case of the initial advice process, 88.89 per cent of the advisers identified an increase in time required of over 20 per cent, with 27.78 per cent indicating that the average time required has increased by more than 50 per cent. With respect to the annual review process, 80.55 per cent of participating advisers indicated that the time required has increased by over 20 per cent, with 30.56 per cent identifying an increase of more than 50 per cent in the average time required to complete the service (Table 3.13).

Table 3.13: Increase in average time to deliver advice, participating advisers (%)

Level of increase	Initial Advice	Annual Review
Less than or equal to 10%	2.78	2.78
Between 11% to 20%	8.33	16.67
Between 21% to 30%	25.00	29.17
Between 31% to 40%	19.44	16.67
Between 41% to 50%	16.67	4.17
More than 50%	27.78	30.56

The impact of time required on the service is reflected in a subset of the information presented in Tables 3.14 and 3.15, which show a set of potential factors driving increases in initial advice and annual review fees. Consistent with responses confirming large increases in the time required for both initial advice and annual review services (Table 3.13), requirements associated with compliance and Statement of Advice (SOA) and Record of Advice requirements (ROA) disclosure and documentation have been identified by many as being ‘high impact’ reasons for fee increases over the last three years (Tables 3.14 and 3.15).

Table 3.14: Reasons for increases in initial advice fees in the past three years and level of impact, participating advisers (%)

Value placed	Increased SOA requirements (disclosure and documentation)	Loss of commission revenue	Increased business costs	Increased licensing and Professional Indemnity costs	Increased compliance
No impact	0.00	23.33	0.00	0.00	0.00
Low impact	6.67	38.33	3.33	6.67	1.67
Moderate impact	26.67	13.33	36.67	21.67	8.33
High impact	66.67	25.00	60.00	71.67	90.00

Increased compliance is recognised as an important factor behind fee increases, with 90 per cent of participating advisers identifying it as a 'high impact' reason for increases in initial advice costs and 93.94 per cent as a 'high impact' reason for increases in annual review fees. Sampled advisers also identified that increased SOA and ROA requirements (disclosure and documentation) have been major factors leading to fee increases for each of initial and annual review advice, with 66.67 and 65.15 per cent, respectively.

Other high impact factors included increased business costs and increased licensing and Professional Indemnity costs, reported as being 'high impact' on initial advice fee increases by 60 and 71.67 per cent of advisers, respectively. Increased licensing and Professional Indemnity costs were also reported as being important in annual review advice fee increases, with 69.70 per cent of advisers rating this as a 'high impact' factor. While a driver of fee increases, 61.66 per cent of advisers indicated that the loss of commission revenue has had 'low impact' or 'no impact' on their fee structures, while 56.06 per cent similarly suggesting 'low impact' or 'no impact' of increased business costs.

Table 3.15: Reasons for increases in annual advice fees in the past three years and level of impact, participating advisers (%)

Value placed	Increased SOA requirements (disclosure and documentation)	Loss of commission revenue	Increased business costs	Increased licensing and Professional Indemnity costs	Increased compliance
No impact	1.52	28.79	24.24	1.52	1.52
Low impact	10.61	30.30	31.82	9.09	0.00
Moderate impact	22.73	21.21	21.21	19.70	4.55
High impact	65.15	19.70	22.73	69.70	93.94

3.3.3 Demand Side Impacts - Cost of Financial Advice

As identified, in Section 3.3.1, 80 per cent of survey respondents have increased their initial advice fee, while 88 per cent have increased their annual review fees over the last three years. In the case of initial advice, 95 per cent have increased their fees by over ten per cent, while 38.33 per cent have increased their fees by over 30 per cent in this period (Table 3.12).

Associated with these fee increases has been the potential for loss of clients. Table 3.16 summarises adviser estimates of the proportion of clients lost over the last three years due to fee increases. Table 3.17 provides information on adviser estimates of potential and existing clients lost from the key retirement planning advice area, referencing those clients with superannuation assets less than $250,000 per household, or less than $150,000 for a single person.

67.57 per cent of respondents identified an estimated 0 – 10 per cent loss of clients, with 21.62 and 10.81 per cent estimating client losses of 11 – 20 or 21 – 30 per cent, respectively. With retirement planning advice for clients with superannuation assets less than $250,000 per household, or less than $150,000 for a single person, 64 per cent of responding advisers estimated a loss of more than ten per cent of prospective clients due to fee increases. 32 per cent estimated a loss of more than 50 per cent prospective clients from this cohort.

In the case of existing clients with superannuation assets less than $250,000 per household, or less than $150,000 for a single person, a smaller proportion of advisers identified a loss of existing clients of more than ten per cent (45.33%) and 17.33 per cent of advisers estimated a loss of more than 50 per cent.

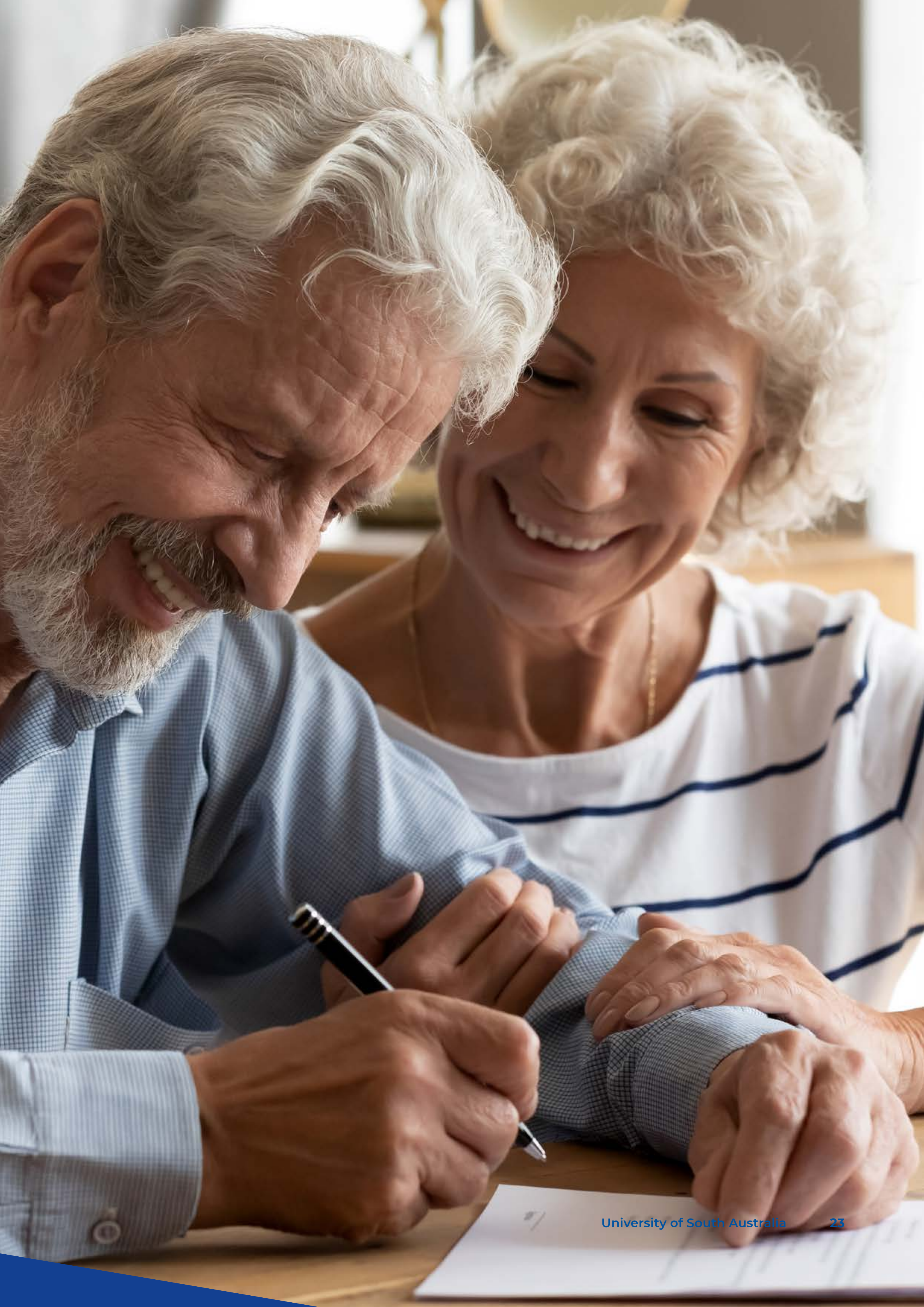
Table 3.16: Estimated client loss over the past three years from increased fees, participating advisers (%)

Proportion of clients lost	Adviser responses
0 – 10%	67.57
11 – 20%	21.62
21 – 30%	10.81
31 – 50%	0.00
> 50%	0.00

Table 3.17: Retirement planning clients who have opted out from receipt of service in the past three years due to the increased level of fees, adviser responses (%)

	Prospective clients for initial advice	Existing clients for annual review
0 – 10%	36.00	54.67
11 – 20%	16.00	14.67
21 – 30%	6.67	9.33
31 – 50%	9.33	4.00
> 50%	32.00	17.33

Note: Refers to clients with superannuation assets less than $250,000 per household, or less than $150,000 for a single person.



3.3.4 Cost of Financial Advice - Solutions

The results presented in Sections 3.1 and 3.2 highlight multiple features associated with cost sensitivity for several client cohorts, specifically the female and lower socio-economic client groups. The higher proportion of these groups of advised consumers ranking financial advice as only being 'moderately valuable' or lower (Table 3.1), the higher the probability of lower socio-economic group members not continuing with the help of a financial adviser in the future.

Similarly, the proportion of female advised consumers suggesting a fee of between $0 – $999 was reasonable for both initial and annual review advice was also higher than for the full sample (Table 3.6). Unadvised consumers from lower socio-economic groups generally also identified a lower willingness to seek financial advice, even if offered assistance with fees (Table 3.9). Additionally, a value of between $0 – $999 was identified as the possible co-contribution by respondents in each of the female and lower socio-economic groups.

Table 3.18 summarises adviser views of the effectiveness of three alternatives for improving the affordability of initial advice for retirement planning and wealth accumulation clients with superannuation assets less than $250,000 per household, or less than $150,000 for a single person. Two alternatives are forms of assistance, with fees being funding through superannuation and a government-funded rebate.

The other alternative suggests reducing the regulatory burden imposed under current (long-form) SOA requirements by allowing for a short-form SOA to be used for clients with low superannuation (asset) balances.

From the adviser perspective, a government-funded rebate for initial advice was perceived as most likely to be effective, with 64 and 58.67 per cent of advisers indicating it would have a high impact for retirement planning and wealth accumulation clients, respectively. Short-form SOAs, which would allow for a decreased cost of initial advice, were also viewed as an effective solution, with 54.67 and 52 per cent of advisers suggesting a high impact on retirement planning and wealth accumulation clients, respectively.

The ability to pay initial advice fees (up to a cap) from any industry superannuation fund was seen as the least preferred alternative for supporting retirement planning and wealth accumulation clients, with only 40 and 41.33 per cent of advisers, respectively, suggesting a high impact from this action.

Table 3.18: Perceived level of impact of select alternatives for improving the affordability of financial advice for retirement planning clients, adviser responses (%)

	Short-form SOAs	The ability to pay initial advice fees (up to a cap) from any industry superannuation fund	A government-funded rebate for initial advice
	Retirement planning clients		
No impact	10.67	13.33	6.67
Low impact	5.33	13.33	10.67
Moderate impact	29.33	33.33	18.67
High impact	54.67	40.00	64.00

Note: Refers to clients with superannuation assets less than $250,000 per household, or less than $150,000 for a single person.

> From the adviser perspective, a government-funded rebate for initial advice was perceived as most likely to be effective

4 Discussion

A prominent feature of the responses from our unadvised consumer survey participants was a lack of perceived value from the potential receipt of financial advice services (Table 3.8), with 79.46% of these respondents indicating it would not have value. Additionally, 33.93% of these respondents identified that "I don't trust financial advisers", which is reflective of results from prior surveys suggesting approximately 70 per cent of consumers do not know who to trust to provide financial advice (FPA, 2015).

A lack of trust, combined with product complexity and poor financial literacy are major barriers to consumer entry and to the efficient operation of a 'market' for financial advice (Ring, 2015). These features were reflected in the low willingness of unadvised consumers to pay (Table 3.9). 100 per cent of unadvised respondents within the female and lower socio-economic groups indicated a reasonable range for fees for financial advice as being between \$0 – \$999, while 74.14 and 85 per cent, respectively, of these cohorts indicated that financial advice would not be valuable to them.

With respect to consumers from the lower socio-economic group, our results for the unadvised consumer contrast sharply with those of the advised consumer, where only 14.84 per cent perceived that financial advice was not valuable (Table 3.1). It also contrasted with the apparent willingness of 50 per cent of advised consumers within the lower socio-economic group to continue to seek financial advice in the future (Table 3.7), despite the current level of and recent increases in fees for advice services (Tables 3.11 and 3.12).

Each statistic is suggestive of a product delivering considerable value to advised consumers, as well as trust developed from experience of the service provided. However, the demand structures for lower-income and higher-income clients often differ (e.g., investment advice versus insurance advice) (Collins, 2012; Tang and Lachane, 2017). This is consistent in our findings, with cohort contrast between the value for different forms of advice by advised consumers in our survey (Tables 3.2 to 3.5), with those in the lower socio-economic group ranking advice on superannuation and age pension/ Centrelink more highly than insurance advice.

A majority of advised female respondents also identified that financial advice was at least 'somewhat valuable' (or higher), with only 14.2 per cent indicating that financial advice was 'not valuable'. In general, advised female consumers placed a greater value on financial advice received across most advice areas than identified in averages for the full sample of respondents (Tables 3.2 and 3.3).

Despite this, a concern was that with this higher valuation, female advised consumers are less certain of continuing with financial advice in the future (Table 3.7). Relative to the average across all respondents, a greater proportion of female respondents also identified that advice would be of value when unadvised (Table 3.8), however this group placed a lower dollar amount on advice in general (Section 3.2.2). This may be a reflection of disadvantages experienced in the areas of income, superannuation and wealth relative to males (ABS, 2020), and a lack of knowledge of the potential benefits to be derived from the receipt of financial advice.

This all raises important questions regarding the potential sources of differences between informed (advised) and potentially uninformed (unadvised) consumer valuations of financial advice services and of the impact of differences in levels of information asymmetries regarding the benefits derived from advice between these groups.

Both trust and financial literacy/capability issues have been highlighted as core issues that impact the potential operation of markets dealing in financial advice services (Ring, 2015). Additionally, even where a preference for consumption of financial advice services is identified, many individuals do not proceed. ASIC (2019) find an intent from 41 per cent of the population to seek financial advice, but only 12 to 20 per cent do so because of perceived barriers (Westermann et al., 2020).

International evidence suggests that for low-income individuals and those with greater degrees of financial fragility, a lower level of access to financial services and products is accompanied by lower levels of financial knowledge and capability (see Westermann et al., 2020 for discussion of the literature; also Tang and Lachane, 2012, and Alyousif and Kalenkoski, 2017).

Australian research suggests there is considerable variation within the Australian population in terms of financial education (see Westermann et al., 2020), suggesting this may be a relevant consideration. While financial awareness is an issue for low-income clients, financial literacy is an issue for high income clients (Kramer, 2017) so poor financial awareness and literacy may also be primary barriers. Financial literacy and financial advice are complements and not substitutes (Collins, 2012).

Higher levels of financial literacy increase use of financial advice services (Lusardi and Mitchell, 2006; Collins, 2010; Van Rooij et al., 2011; Seay et al., 2016). However, promoting financial literacy/awareness is often less effective among lower-income clients (Kaiser and Menkhoff, 2017). This suggests intervention must be both targeted and provided with greater intensity to this group, whereas those with greater wealth are more likely to choose to receive financial advice reducing the need to promote to this group (Finke et al., 2011).

The low level of fees suggested as being reasonable by survey respondents (Table 3.7 and Section 3.2.2), contrasts greatly with the level of fee required to cover regulatory and business costs by financial advisers. For example, the most common average initial one-off advice fee charged by surveyed financial advisers is in the range of $2,000 - $2,999, while over 90 per cent have an annual review fee of $2,000+, and 60 per cent $3,000+ (see Section 3.3, Table 3.11).

This divergence has led to a significant loss of clients receiving advice (Tables 3.16 and 3.17) is consistent with recent industry evidence of the impact of affordability on loss of clients, with survey results suggesting as many as 100,000 consumers have ceased to receive financial advice in the past 12 months (Dew, 2022).

On average, advisers perceive the value of six of the advice areas identified in the survey more highly than advised consumers (Tables 3.10 and 3.2). This suggests one potential source of the value variation between average fees charged for initial and annual review advice (Table 3.12) and the fees judged as 'reasonable' by most advised and unadvised consumers (Table 3.7 and Section 3.2.2). The significant focus on the impact of regulatory burdens on cost structures identified (Tables 3.14 and 3.15) suggests that this value wedge is largely driven by costs imposed by regulatory requirements and is an example of regulatory distortion and an unintended regulatory failure. This view is supported in continued calls by industry participants for reduced regulatory burdens to allow for the cost of provision of financial advice to be lowered in Australia (e.g., Brodie, 2021; Taylor, 2021).

Simple economics suggest the levels of increase in fees for initial advice (and, presumably, annual review) (Section 3.3.2), would be expected to have widened the gap between cost of provision of the service to the financial advisor and perceived value to the consumer of financial advice (Sections 3.1.1 and 3.2.1). As summarised in Section 3.2.2, much of the pressure for increases in fees has been the need to cover increases in cost driven by regulatory, licensing and professional indemnity costs (Tables 3.15 and 3.16).

Therefore, in the absence of reductions in regulatory burdens imposed on service providers within the financial advice sector, methods for reducing client user cost for these services need to be identified. As identified in Table 3.9, surveyed consumers favour subsidisation (in this case grants) over the ability to fund advice from their own resources (i.e., accumulated superannuation). This suggests that grants, or substitutes such as tax deductibility of fees for receipt of financial advice (FPA, 2021), may be a preferred vehicle to provide financial incentives to receive advice. As with pensions, income and assets tests would allow targeting of grants/tax incentives to lower socio-economic/lower income groups and recognise the greater likelihood of those with more wealth choosing to receive financial advice.

“surveyed consumers favour subsidisation (in this case grants) over the ability to fund advice from their own resources”

5 Recommendations

Based on the results from the study, the following recommendations are made:

1 Consumers appear to be unaware of the value of financial advice, particularly in the retirement planning and superannuation advice areas. Both advised consumers and financial advisers place a higher value on advice compared to unadvised consumers. It is recommended that a consumer awareness campaign about the value of financial advice be implemented and targeted towards consumers from lower socio-economic groups and females. Policy initiatives or government-funded incentives to improve the access to financial advice for this group would be futile if they do not perceive financial advice to be valuable to them.

2 A government-funded rebate for initial advice fees is recommended for consumers in the lower socio-economic group. It is recommended that a fee rebate is targeted specifically to consumers seeking retirement planning and superannuation advice and who are in the pre-retirement age group (aged 55 or more).

3 Compliance obligations have increased the time required to deliver advice and therefore cost. A short-form SOA will reduce these compliance obligations and the cost of providing advice. It is recommended that short-form SOAs or ROAs be required for advice delivered to consumers in the lower socio-economic group and who are in the pre-retirement age group (aged 55 or more). This will help reduce the 'fixed costs' of initial advice for a cohort of consumers who have relatively low levels of complexity in their financial advice needs.

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