CERTAINTY
ADVICE GROUP

The aftermath of the Banking Royal Commission

THREE YEARS LATER – WHERE ARE WE NOW?

A CERTAINTY ADVICE GROUP DISCUSSION PAPER
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About Certainty Advice Group

Certainty Advice Group is a nationwide alliance of financial advisers whose livelihood and growth is based purely upon the value each client receives. We've proven there is an alternative working model that can replace the scandal-plagued, product-based advice fee model still in predominant use today. For decades we have improved our clients lives without any financial product or service bias.

We want to elevate the profession and empower Australians to expect more from their advisers. We are optimistic that with systemic change that fundamentally and totally separates financial advice from financial products, only then can valuable advice expand to enable more Australians to live better financial lives.

Three years on from the announcement of the $70m Royal Commission into the Misconduct in the Banking, Superannuation and Financial Services Industries, we need to ask ourselves: Are Australians better off?

Opinions are divided.

Worse, many Australians don't have an opinion. The effect of COVID-19, the once-in-a-lifetime disruption, has put any future planning on hold.

Will the Royal Commission's biggest benefits be a side-line of this recent history? Or will these issues remain simply unresolved, forgotten and still outstanding from the inquiries that preceded it? Perhaps. While the fallout from the Royal Commission is subjective, the trends it fuelled are objectively clear:

- Experienced advisers are leaving the industry quicker than at any other time.[1]
- All four major banks in Australia have discarded their network of financial advisers to focus on FINTECH advice models.[2]
- The red tape and compliance demands on advisers, particularly in larger license groups like AMP, have significantly increased due to additional consumer safeguards.[3]
- Consumers are now more sceptical and aware of the ruinous 'fee-for-no-service' product offerings at the heart of the Royal Commission.[4]

Certainty Advice Group sees some promise in the aftermath. With sound leadership from our industry's leaders and professional associations, we believe we can draw a clear line in the sand as a true and trusted profession.

A lingering question still remains, however. Despite the $70 million price tag, why didn't the Royal Commission take the next step to separate advice from product? And what can we do to get the advice industry over that line?

Hopefully this 2020 discussion paper, with thoughtful input from 17 Certainty Advisers and industry experts nationwide, can tease out some answers.

Jim Stackpool
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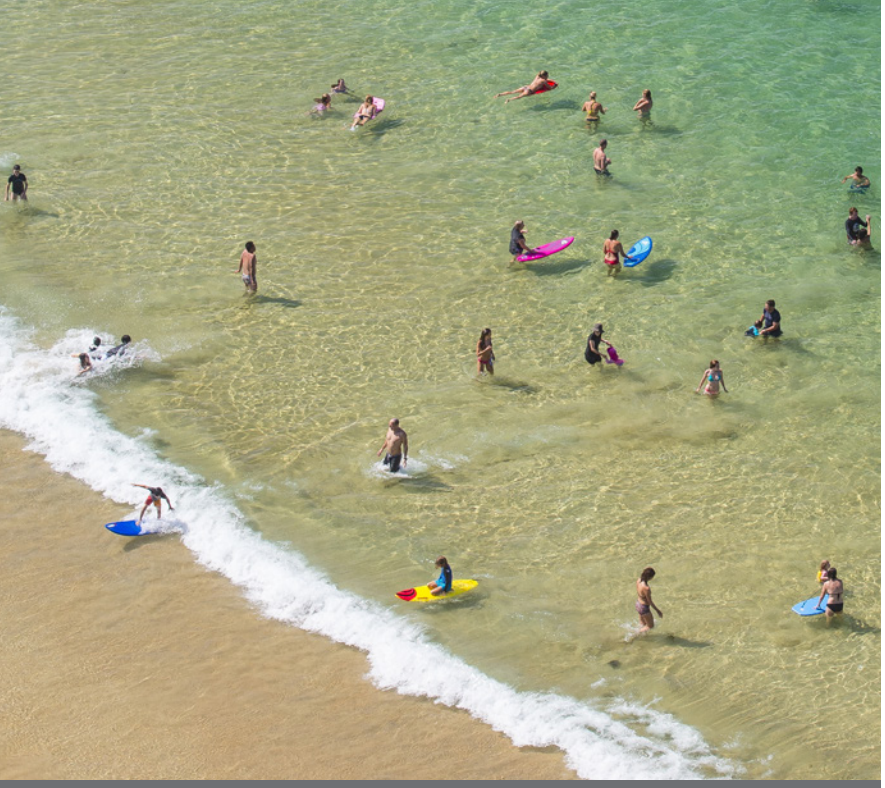
1. Ferguson, A. (2019) "Shrinking financial advice sector in turmoil", *Australian Financial Review*, June 2, accessed October 12 2020.
2. Vickovitch, A. (2020) "Major banks slammed for abandoning wealth", *Australian Financial Review*, January 8, accessed October 12 2020.
3. Kendell, S (2020) "Workloads rise as industry dodges worst of crisis", *Independent Financial Adviser*, April 24, accessed October 12 2020.
4. Eyers, J and Kehoe, J (2020) "Treasurer takes on 'fee for no service' scandal", *Australian Financial Review*, January 31, accessed October 12 2020.



Three years in: What happened to 'heads on spikes'?

The response from financial advisers around Australia was unanimous: the Royal Commission was the long overdue shakeup the banking industry needed. Despite the outward legality of the banks' adviser-led sales channels, they needed to go, and go fast.

With little regard to their advisers or clients, this unseemly haste didn't sit well with many. "That to me is a big sign they saw all of these issues on the horizon," says Neil Watson of The Planning Room. But leave they did, and without the bloodbath many Australians were anticipating. "Heads on spikes kind of didn't happen," he says. "I think people were looking for more accountability for the banks' systematic failures."

Three years on from the daily media frenzy of the Royal Commission, the winners and losers are still emerging, and as yet, its true benefits remain unrealised – particularly for consumers.

"I don't see that it's really made advice more affordable, or more accessible, or any better for clients," says Paul Birch of Pacific Wealth. Our expectations are that the trustworthiness and quality of advice will improve. But to date, we're still to see that happen. So, what are some of the effects of the Royal Commission we can see right now?

1. The profession is on the move

Some older advisers see the new, education-heavy compliance regime as a spur to early retirement and are leaving the industry fast. Interestingly, younger firms of all kinds are on the rise and will mature as older ones leave. Whether they're targeting a lower price model that can reach more Australians or fill up a niche, we will keep an eye out for new firms as we watch the 'old guard' depart.

2. Banks have exited stage left

After years of investing time, money and resources into this space, banks have departed the financial advice scene with astonishing speed. However, we see the coming period as a time of banks regrouping, and exploring the opportunities of FINTECH as an alternative, product-based solution.

3. The compliance regime is… getting on everyone's nerves

With every adviser now needing greater compliance, this has led to increased layers of regulatory costs, paperwork and insurance needs: a big headache for many advice businesses. This has led to increased costs for consumers, which has become a deterrent to many Australians wanting to access good advice.

4. Consumers are armed with fresh knowledge

Increased consumer awareness of 'fees for no service' has in turn empowered our client base for the better. "The Royal Commission has done a much better job of getting that message out to almost all Australians," says Scott Farmer of Bravium. "It's achieved progress in three years that would have taken us ten. Now, clients are actively seeking out that unconflicted advice."

Winners and losers

Considering some of the losses and wins from the past three years may help advisers pick out a path in this uncharted landscape.

ROYAL COMMISSION WINNERS

Short term	Long term
• Self-licensed advisers unattached to dealer groups • Second-tier licensees (100-500 advisers) • Compliance providers • Consumers empowered with new knowledge	• Bigger licensees becoming an agent of a larger dealer group • Younger firms on the rise • Banks (after their FINTECH offers are made available)

Notably, the new compliance regime is a visible burden on both advisers and their clients. Advisers are now devoting large chunks of time to re-designing unrealistic compliance practices, which is in turn making advice less affordable to the people who need valuable advice the most.

In response to complicated compliance regimes and education requirements, we're also seeing a wave of the 'old guard' leave the profession. While we may be losing some excellent talent and experience, some advisers feel this may be overdue – and time for a change.

Says Samantha Albiez of Bravium: "The industry is being pushed forward with momentum from both a relatively young group of advisers that want to ensure that the future of the industry is secured on new foundations, as well as consumers that are asking and demanding change."

ROYAL COMMISSION LOSERS	
Short term	**Long term**
• Regulators • Tier 1 licensees (over 500 advisers) • Big insurance/financial services groups • Advisers stuck with a new compliance regime • Clients being burdened with those costs, plus small clients now unable to afford advice • Banks	• Industry funds • Existing advice dealer groups • The old uneducated advisers who won't undertake new education

Over both the short and long-term, the Royal Commission aftermath is also leading to more open relationships with clients and greater awareness of fees; a better playing field all round. For Certainty Advisers, this is a given. But for new clients there may be a degree of scepticism – which may drive them to seek more detailed advice.

This all brings quality advice to the fore

Across Australia, Certainty Advisers are united in their belief that the shift away from mostly bank-owned platforms to businesses focused on delivering great outcomes for advisers is a massive win for high-quality advice firms.

- "I think anyone who delivers clear, transparent advice, serving products and services, have been winners." – Reine Clemow of Acquira Wealth Partners
- "If you still support outdated service propositions, product and distribution mentality, if you're still in denial, it's time to step aside." Charlie Haynes of Lonsec
- These (questioning) clients are going to be looking for the relationship – the service offering, the reassurance, trust and ongoing advice – rather than the robo-advice, or whatever's going to come out of this from the banks." – Annette Pulbrook of FinBiz Advisers

While we're not where we thought we'd be at the start of the Royal Commission three years ago, the changes in our industry have certainly wrought interesting improvements for some and challenges for others.

Deadlines for education requirements have been pushed back, which has prolonged the changeover period for many. We've seen massive strides in consumer understanding of fee-for-service, seen the banks depart financial advice almost immediately, plus massive compliance and education requirements currently being worked through by the industry.

Then in 2020, the virus arrived on our shores.

What effect has COVID-19 had on our industry?

For people in shattered industries like aviation, hospitality, higher education or entertainment, the current outlook is gloomy. Many will never return to their former professions, are considering retraining, and if running a small business, have accessed Superannuation early to help with ailing cashflow. For others, their income may be cut back, while for some retirees, things continue as normal with income from their retirement funds.

Reine Clemow suggests COVID-19 could be the catalyst that gets Australians to take action on their finances. The opportunity to **take stock and re-evaluate** may propel people to get their financial house in better order. Anthony Roe of Roe Financial believes this new outlook is "sort of like life 20 years ago. People have slowed down a bit, staying at home, and are **re-evaluating their extracurricular activities**."

COVID-19 underscores the need for **patience and investing in a good, long-term plan**, according to Dieter Tode of Monument Advisory, with Robert MC Brown from the ADF Financial Services Consumer Centre seeing this as something our industry could play a part in rebuilding. "**Financial advisers should make an important social contribution here** but will not fulfil their potential in doing so unless the industry changes its culture to act unreservedly in the public interest."

Samantha Albiez sees the increased demand for advice from new clients as an **opportunity for reinforcing client education**, while Julie Hautot of Hywood Partners has seen her team respond and **improve their advice processes** with courses, videos and virtual meetings. "It was a huge uncertainty for clients, so we were quite proactive. We were on the phone a lot, talking to clients about what was going on."

For Paul Gilbey of Hywood Partners, **embracing technology** "created new efficiencies. By necessity, we had to use new tech and we've suddenly become more confident and more willing to embrace it: both advisers and clients." Annette Pulbrook sees **more people wanting reassurance**. "People are putting off making decisions because they just don't know what the future holds. And they're wanting, probably not advice, so much as discussion and reassurance at the moment. It's really hard to know what to advise clients because we are in such an uncertain world."

Where we can go from here

Despite Australians having compulsory superannuation for nearly 30 years, only 27 per cent have access to valuable advice[5]. Is there anything else that's going to help more Australians access financial advice in this time of need? What do we think the next three years hold?

Individual licensing

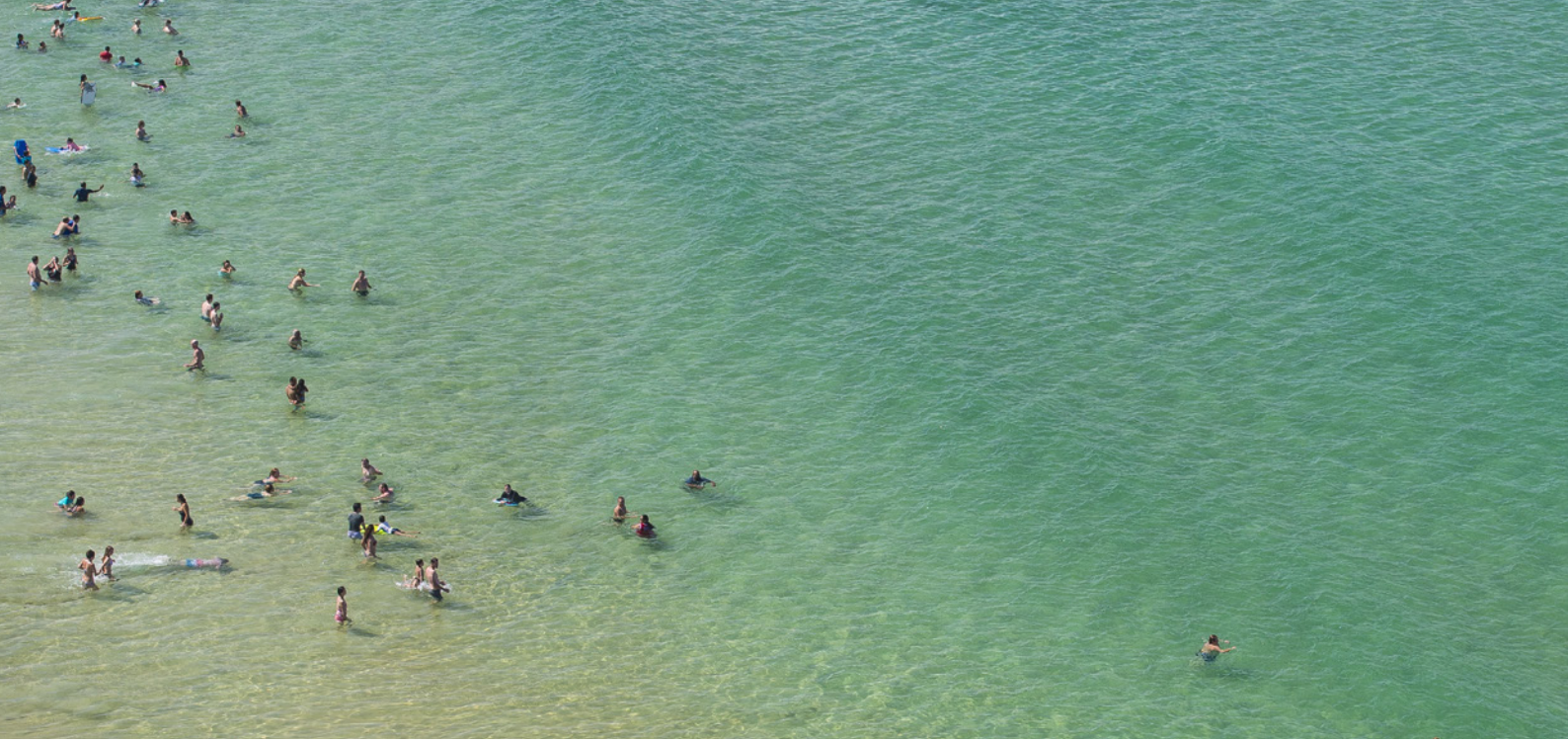
We see that individual licensing is a logical development for those leaving a larger dealer group. However, Certainty Advisers see a few issues around the complex post-Royal Commission regime. With the banks out of the advice field, any advisers moving on to self-license find they lack the access to research and the resources they formerly enjoyed in larger institutions.

Currently, there are few individually licensed financial advisers. We see this as a logical conclusion for those leaving larger dealer groups, and it may dispel the need for the antiquated and expensive layer of costs and complexity from larger, product-based dealer groups. How can we support those advisers leaving, so they don't become 'little islands'? There would be some groundwork required to make this shift work.

Robo-advice

All Certainty Advisers believe that the banks will be back in the advice space with a vengeance – just with a new, automated appearance. Anthony Roe believes robo-advice may have its place, in the right context. "I'd call it more 'product placement'", he says. "Advisers may be able to use technology to help place their clients with what they want to do. But there's a vast difference between that and actual deep financial advice." The actual financial advice of the future looks to go deeper with the client and achieve their bigger objectives – looking someone in the eye and delivering what's important to them and their life.

5. ASIC media release (August 26 2019) "Consumers see value in financial advice, but lack of trust remains an issue", accessed October 12 2020.



Industry funds

With banks out of the advice space, then industry funds seem to be falling into where the banks used to be. “I’d say the industry funds would be one of the only winners from the Royal Commission,” says Paul Birch.

Clayton Daniel of XY Adviser agrees. He also sees funds like IOOF (which recently announced a merger with MLC) potentially opening up space for digitally delivered ‘limited advice’ at a low cost – with fewer hurdles for advisers. As the largest financial services provider in Australia, the second largest Super provider, and potentially the largest distribution force, he says for large companies to zig while the rest of the industry zags, “they must know something we don’t.”

Dealer groups and other industry suppliers

With more advisers now self-licensing, it’s apparent that this is also a move away from being tied to ‘one-stop-shop’ dealer groups. Scott Farmer sees this as a real test for these dealer groups to understand the value in that proposition for a modern advice firm. Above all, he wants to see real freedom of choice for his business – the freedom to find exactly the right solution for his clients, regardless of where he finds that solution.

FASEA

Robert MC Brown believes that both consumers and advisers will be winners if advisers choose to comply with the principles of Standard 3 of the FASEA Code of Ethics. This covers:

The removal, not just the disclosure of conflicts of interest. That includes all forms of conflicted remuneration, namely asset fees, risk commissions, profit shares on white label and in-house platforms and master trusts, product bonuses and even fixed salaries that are dependent on achieving a product sales budget.

He feels that if the advice industry complies with the true intent of these principles, this can only engender more trust in our service. It will allow advisers to concentrate on value-added strategic advice, not just products. Simon Hoyle of CoreData is similarly optimistic that as these FASEA standards work their way through the industry, so too will the public become more aware that advisers – now with degrees or similar qualifications – are being held to higher standards than before.

We thank the following Certainty Advisers and industry professionals around Australia who contributed their valuable experience and insight to this discussion paper.

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So, here we are. Three years down the track, trying to look past a pandemic present and plan for the future.

It's within our grasp.

Australians have at last woken up to the greed of the four big banks. And it's more apparent than ever that the separation of product from advice must be a priority – for our industry, our leaders, our professional associations and above all our clients. We're *almost* there. Since COVID-19 Australians of all kinds need advice and support, more than ever.

Changes could be small but incremental, like better labelling of products. As advisers, we all use products and refer to them in our work: we think the industry must ensure consumers are crystal-clear on what they're getting. It could also be broader, more sweeping changes, such as rebranding our entire industry. As Samantha Albiez says: "We don't want to be known as what we were previously known as, because that's not who we are anymore as an industry. We're innovative people. We are able to do things that we never thought advice would look like. We can really drive home that this is a new world that we live in, and we are a new industry."

We need leadership

Can our industry show the leadership we need to get us over the line? As Robert MC Brown notes, "if financial advisers are to become a true and trusted profession, our professional bodies simply cannot persist with the line that they are 'agnostic' about their members' business models. They must decide whether their associations are professional bodies or commercial lobby groups – not both."

An industry code of ethics focused on quality of advice for the client is an excellent starting point, according to Dieter Tode. "If you have an industry with high educational standards and a code of ethics that's enforced and conflicts removed, I think that's a great outcome for clients. With enforced standards that all advisers can look to, our industry can become an established profession."

It is time to separate product from advice.

With greater trust, transparency in fees and open discussions with clients all from an ethical standpoint, we can make this happen. Our clients, better informed and seeking truth after the fallout from the Royal Commission, demand it. The reputation and professionalism of our growing industry demands it. And we as a nationwide alliance of advisers providing an alternative model of unconflicted advice, demand it. Let's make it happen.

Jim Stackpool

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