

The time for financial advice disruption is nigh

By [Tom Garcia](#) | 13/07/2016

The current model of providing financial advice is flawed. It is based around delivering expensive and comprehensive advice to less than 20 per cent of Australians, many of whom do not necessarily need or want this level of advice.

It ignores the needs of the other 80 per cent of the population – those who arguably need it the most – and is strangely resistant to any form of evolution. I suggest it is ripe for, and in fact needs, disrupting.

There are two key issues that need addressing: the definitions of advice, and the Statement of Advice. There are now almost more legal definitions for financial advice – general, comprehensive, personal, limited, intra-fund etc – than there are asset classes in which to invest. Talk about confusing for the average customer, who is essentially just asking for help. But many financial planners are just as confused. If you ask 10 people in the industry, you will probably get 10 different answers as to what advice is permissible under each definition. Many advisors run for cover and err on the side of caution, leading to a poor customer experience.

We are not the only jurisdiction to have created such confusion – the UK and the US are in equal trouble – but that doesn't mean we can't solve a global problem. It is incredibly important that we resolve the interaction of these definitions, or at least simplify them, so advisers can feel confident to deliver the right advice at the right time.

The second issue is the Statement of Advice (SOA), which, when you boil it down, is a compliance document for when something goes wrong. There will be some strangled cries that it helps communicate advice. My sense is that it creates about 60-70 per cent of the cost of advice for virtually no value-add – either to the licensee, the planner or, most importantly, the consumer.

It is both frustrating and embarrassing that obtaining financial advice in this modern age has become so incredibly complex and expensive. Here we are in the middle of a digital revolution, yet the great majority of working Australians cannot afford financial advice.

SUB: Innovation not free of risk

Recent announcements by ASIC of the regulatory sandbox for fintechs are an excellent step forward and should be congratulated. AIST is looking to work with ASIC and the industry to use such sandbox ideas for model innovation.

Imagine what innovation would occur if the SOA was removed? Naturally there are risks, but super funds and planning practices are essentially set up to manage risk on behalf of others – not run from it. Could we not follow the medical model of a Hippocratic Oath and allow customers to meet with planners when they need to, to receive advice only on the topic they need, and for the planner to maintain a living?

If the advice industry does not make radical changes, I suspect someone from outside the industry will. A digital aggregator with advice sitting on top of it could render many current advice services redundant and could potentially operate outside the current regulatory boundaries. We should not presume these new businesses understand these legal requirements we are constrained by.

We are learning more and more from behavioural scientists and designers that an excellent default system, plus advice, is the ideal model for decisions around investing. So advice will become more and more critical to the delivery of better retirement outcomes. We should design the model alongside the consumer using design-led thinking to create a system where everyone wins.

If our aim is to see a great many more Australian access and use financial advice, the model must change.



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