Advice: Back to a better future

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The recommendations of the Quality of Advice Review would force large institutions back to the table on advice, re-define digital advice models and have significant flow-on implications for customer-facing channels.

A proposal for much-needed change

Treasury recently released the final report from the Quality of Advice Review (QAR; the Review) with pleasingly minimal dilution of the key recommendations from the initial report. With the dust settling, and having had time for reflection, now would seem to be an appropriate moment to discuss a few of the less obvious implications for the industry.

Perhaps the most widely-expressed concern about the recommendations is that they could make for a return to the 'bad old days' of product hawking and poor customer outcomes. These concerns, while right to be taken seriously, are overstated. The cost of previous failings still weighs heavily on the industry and there is no appetite for a repeat.

The facts remain, no matter how uncomfortable; Australia needs a mass-market advice solution, and there are few participants with both the balance sheet and reach of franchise to make it work. Any sustainable solution needs to deliver *both* adequate returns on investment *and* appropriate consumer protection.

Comprehensive advice will remain expensive

It was never an explicit goal of the Review to reduce the cost of comprehensive advice, and thus not surprising to observe that there is nothing in the recommendations to suggest that it might.

While reductions in documentation requirements have been broadly welcomed and the removal of safe-harbour steps will be a relief to most advisers, these loosenings are unlikely to sufficiently lift adviser productivity to allow for a larger span of client relationships.

Neither does the Review provide any real avenues to expand the supply of new ('Relevant Person') advisers to the industry, and beyond the Review there remains no clear pathway for an *en masse* development of new advisers to the industry.

As such, it is hard to see the Review's largely-administrative relief putting any significant downward pressure on entry-level price points for comprehensive advice.

Large institutions forced to the table

It seemed inevitable that the way the Review would look to achieve its objectives was to get large financial institutions (back) into the game, involving a tricky balance of commercials and risk appetites. The Review's first recommendation deals with this balance cleverly.

By expanding the scope of what is captured under personal advice, and removing the shield of general advice disclaimers, large institutions are *in effect* being forced to the table. As such, the question of whether to participate is being replaced with a discussion of how to make the most of this new requirement.

The potential flow-on implications for customer-facing channels cannot be understated here; a requirement to provide 'good' personal advice could be instigated by *any* in-bound customer contact.

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Digital advice models and customer data integration will be key, though not as the strategic unicorns as they are seen to be currently.

The recommendation shifts the purpose of digital advice capabilities from distribution/process enhancement to being a key pillar of operational risk management processes. This fundamentally reshapes the business case for the development of advice capability within large financial institutions and can be expected to drive significant uptake and development.

> *"Business cases for developing advice capabilities will be fundamentally reshaped"*

The gap that remains

Given that the recommendations leave comprehensive advice out of reach for most, and with new mass-market advice offerings being tightly aligned to product, some gaps clearly remain.

Comprehensive advice covers far more than which products to buy, incorporating cashflow management, aged care planning, advice for couples and retirement planning. Strategies for how to make these important services available to the average Australian have yet to be successfully deployed.

Super funds could pick up some of the slack here, by way of an expanded ability to develop advice offerings. Within the bounds of financial best interest and absent strong commercial incentives however, it is hard to see Super Funds closing this gap in any meaningful way.

Opportunities abound

The Review's recommendations present a diverse range of commercial opportunities, particularly for those already on the front foot with (customer-focused) product development, and (hopefully) prompts others to begin the process of contemplating their strategy and approach.

Emerging dynamics are set to favour organisations with rich customer data and broad product offerings, while the opening of new channels of customer engagement will present opportunities across the industry. Distribution models will need to be re-evaluated, as will customer engagement strategies and operational risk frameworks.

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Government appetite to ultimately legislate any or all of these recommendations is unknown. Until then, it is up to industry to champion these recommendations to ensure they become reality.

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