

19 February 2014

Senator the Hon A Sinodinos AO  
Assistant Treasurer  
Parliament House  
CANBERRA ACT 2600

Dear Assistant Treasurer

Submission to the Future of Financial Advice Legislative Amendments Consultation Process

Intrafund Advice is a valuable benefit for superannuation members and consumers

We are a group of for-profit and not-for-profit Australian Financial Services Licensees (Licensees) that provide financial advice to Australians, and in particular superannuation fund members. We are not aligned with any particular industry sector and have come together to state the case to retain intrafund advice because of its importance to the future financial well being of working Australians, and retirees.

This submission has been prepared in collaboration with, and using shared research, The Association of Superannuation Funds of Australia (ASFA). We understand that ASFA will shortly provide Treasury with further research supporting the provision of intrafund advice separate to the FOFA legislative consultation process.

We write to strongly support the retention of the current definition of intrafund advice in the Stronger Super legislation. By amending Section 960 of the Corporations Act by way of a 'note' there will be greater clarity as to how the term 'intrafund' advice meets the requirements for collectively charging to members which is outlined in section 99F of the Superannuation Industry Supervision (SIS) Act.

We therefore recommend that the definition remains as it currently stands.

Intrafund advice has become an important feature of the Australian financial services industry, delivering affordable and accessible advice to many thousands of superannuation members each year. The group of Licensees have provided (personal) intrafund advice to thousands of individuals since intrafund advice was introduced. This is the most cost effective and efficient way of providing more people with access to advice, which in turn will ensure that they are better prepared for retirement.

This submission will highlight the many benefits consumers and superannuation members have experienced as a result of this successful policy initiative, including:

1. Demand driven (by the consumer) advice rather than supply driven (by the advice industry)
2. Affordable advice
3. Right-sized advice rather than one-size-fits –all
4. Improved financial and retirement outcomes

5. Compliance with the sole purpose test

1. Demand driven advice: the demand for simple advice is increasing

*"They gave me more information than I had expected.*

*I loved the graphs and the intelligent breakdown and the overall quality of the written report.*

*I was put through to someone intelligent and knowledgeable without having to pay.*

*I was treated like an intelligent person. The information was not 'dumbed down' - this was particularly important as I needed to know as much as possible.*

*Your staff member was intelligent and articulate and knew his field.*

*The above made the experience 'above and beyond'. I am not yet ready to go ahead with this plan, but your staff member's performance means that when I do, there is a very strong likelihood it will be with yourselves"<sup>1</sup>*

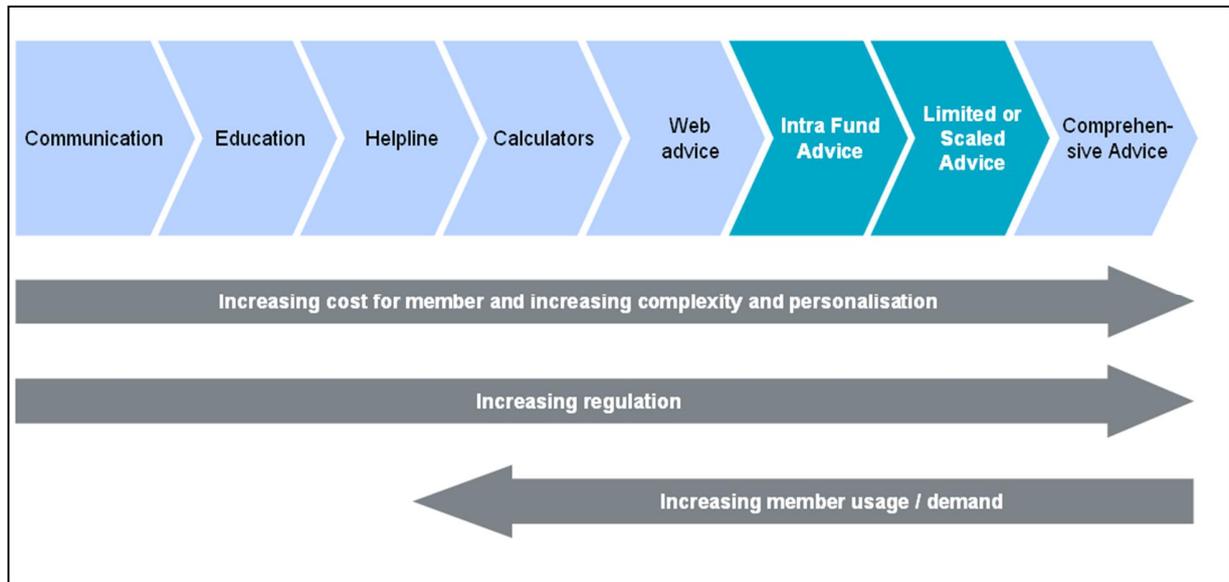
Members call for help in relation to their superannuation benefits. They do not specifically ask for general or personal advice. As service providers we are required to manage their requests seamlessly, cost effectively, and in a compliant manner. Further, members also ask "what should I do" which means a recommendation is warranted. Intrafund advice must include both general and personal advice to enable members to receive the help they want in relation to their superannuation account and benefit, irrespective of the regulatory requirements imposed.

The range of interactions members have with their fund can best be described below, as the "information-education-advice spectrum." As research constantly indicates, the demand for one-off or "piece by piece" advice is increasing, and is inversely proportional to the provision of more complex and advice, which is costlier.

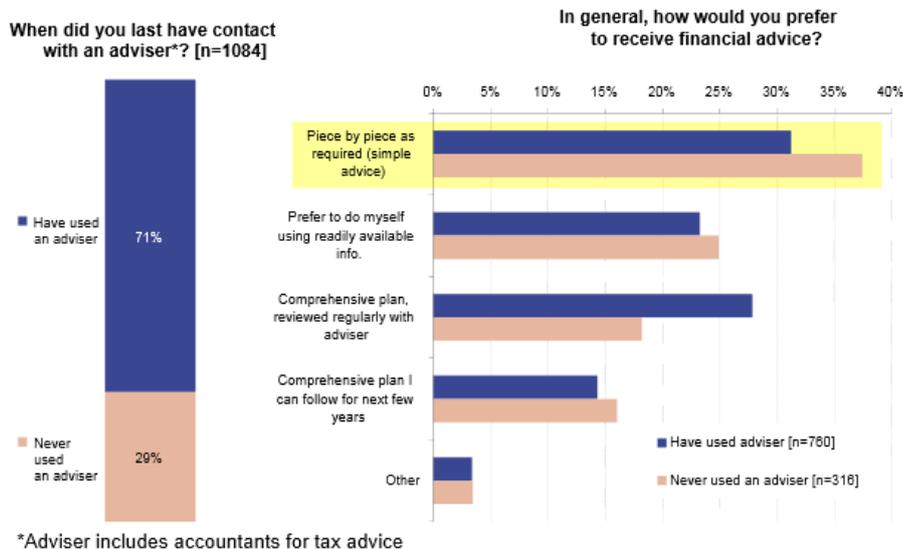
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<sup>1</sup> Verbatim comment from superannuation fund member based on a conversation with the Australian Financial Services Licensee

The following diagram represents the information-education-advice spectrum of services superannuation members have access to, although not all are provided by all superannuation funds. As expected, the cost increases as the service becomes more personalized, largely as a result of increased regulatory requirements. However, research (see below) indicates that demand is concentrated at the education, helpline, web-based and intrafund advice end of the spectrum.

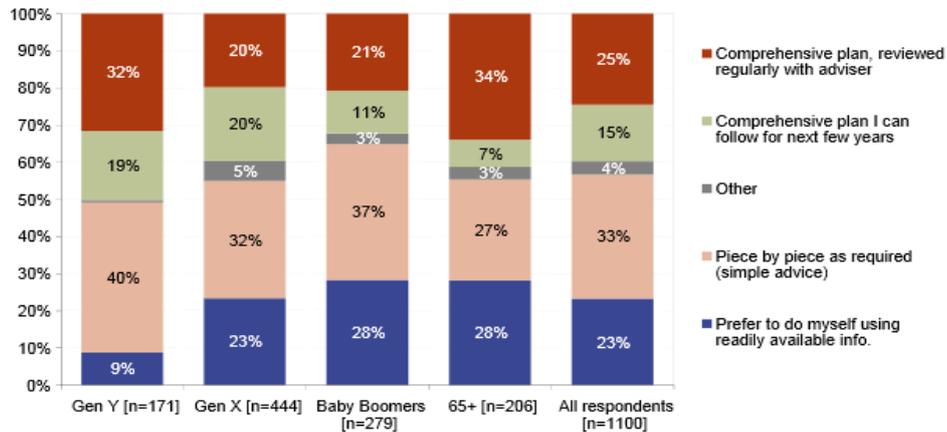


In 2010 ASIC produced research which indicated that the real demand for financial advice was at the simple end of the spectrum, attached to superannuation.



Source: Investment Trends: Advice and Limited Advice Report, Sydney, December 2009.

**In general, how would you prefer to receive financial advice?**

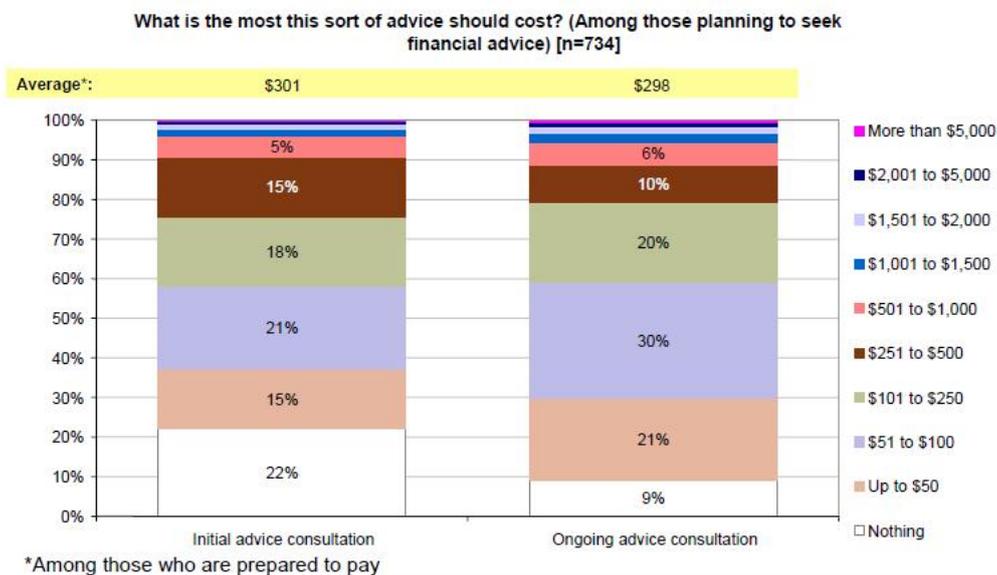


Source: Investment Trends, *Advice and Limited Advice Report*, Sydney, December 2009.

As shown here, approximately one third of Australians prefer to receive simple advice as required.<sup>2</sup>

2. Affordable advice: super members want access to cost effective advice

The report continues on to investigate what people feel they should pay for this advice, providing the following data:



Source: Investment Trends, *Advice and Limited Advice Report*, Sydney December 2009.

<sup>2</sup> [http://www.asic.gov.au/asic/pdflib.nsf/LookupByFileName/rep224.pdf/\\$file/rep224.pdf](http://www.asic.gov.au/asic/pdflib.nsf/LookupByFileName/rep224.pdf/$file/rep224.pdf)

The majority of respondents (approximately 75%) feel that they should pay \$250 or less for this type of advice. By amortising the cost of simple superannuation advice across a broader membership, thus reducing the annual cost per member very significantly, more members are likely to access regulated advice and receive the assistance they need. Removing this benefit will prevent individuals from accessing advice because of the cost barrier.

#### Cost to deliver

This matter was addressed as part of the Review of the Superannuation System (Cooper Review). The Cooper Review sought advice from Deloitte on the overall operating cost of superannuation funds and potential My Super option, including the cost of intra-fund advice. The Deloitte report was published as Appendix D of the final report on the Superannuation System Review Panel and is available on its website.

In the report, Deloitte made the point that quality administration platforms available today have reached the point where much of the capability to provide advice is being covered as part of the business as usual capability of those platforms through both electronic and telephone contact. This capability is largely absorbed within the current development and operating costs of those platforms.

The major additional cost would therefore be related to assistance on specific and more complex limited personal advice matters.

Deloitte's view was that the cost of intra-fund advice depends on two basic factors: the cost of delivering the service to each individual member and the likely demand for the service. They made informed estimates of the costs of delivering both general and limited personal advice to individual members and came up with a table of costs which is reproduced below. It can be seen from this that on their view, the costs of providing intra-fund advice to a reasonably high proportion of the membership of superannuation funds through both general and personal advice is very modest, typically not exceeding around \$10 per annum per member for funds above 80,000 members in size and declining with size of fund. On a weekly basis, the amounts vary from 15 cents to 20 cents per member per week.

### Cost numbers

Estimated costs of intra-fund advice for MySuper products of varying sizes (as \$ per member per annum)							
Fund size: \$millions	<100	500	1,000	2,000	5,000	10,000	>20,000
Fund size: membership	4,000	20,000	40,000	80,000	200,000	400,000	800,000
<b>Demand for advice (% of total membership)</b>							
General advice	10%	10%	10%	10%	10%	10%	10%
Personal advice	5%	5%	5%	5%	5%	5%	5%
<b>Cost of individual piece of advice \$</b>							
Cost general	75	60	50	45	40	35	30
Cost personal	200	170	150	130	120	110	100
<b>Total cost for total fund \$pa</b>	<b>\$70,000</b>	<b>\$290,000</b>	<b>\$500,000</b>	<b>\$880,000</b>	<b>\$2,000,000</b>	<b>\$3,600,000</b>	<b>\$6,400,000</b>
<b>Total cost \$ per member per annum</b>	<b>\$18</b>	<b>\$15</b>	<b>\$13</b>	<b>\$11</b>	<b>\$10</b>	<b>\$9</b>	<b>\$8</b>
<b>Total cost \$ per member per week</b>	<b>\$0.34</b>	<b>\$0.28</b>	<b>\$0.24</b>	<b>\$0.21</b>	<b>\$0.19</b>	<b>\$0.17</b>	<b>\$0.15</b>

### 3. Right-sized advice rather than one-size-fits-all

Intrafund advice enables members to access advice that suits their particular circumstances and needs at the time, in relation to superannuation. Members who are already paying for their superannuation to be managed very rarely wish to pay an additional fee to be told which investment option best suits them, or how much insurance is appropriate for their situation. Intrafund advice facilitates the provision of advice exactly aligned with what the superannuation member is requesting.

This also addresses an issue the financial planning industry has grappled with for decades, which is that offering simple and affordable advice has been difficult without legislative or regulatory certainty, and at a cost that is indeed affordable for most Australians.

#### 4. Improved financial and retirement outcomes: regular advice provides financial benefits

MERCER RESEARCH on retirement readiness from the Super Sentiment Index 2013 indicates that fewer than one in three Australians believe they will have enough money to live comfortably beyond age 70. However, the report states an increasing trend towards seeking help. More people have consulted a financial adviser within the last 12 months and a significant number of people seek information via their super fund website.<sup>3</sup>

Financial advice provides consumers with the opportunity to maximize their superannuation benefits, and improve their retirement outcomes.

Research has shown that clients receiving financial advice have a statistical wealth advantage over those who do not. Taking into account the cost of advice, an individual who has had financial advice generally saves \$1,590 each year more than a similar individual without a financial adviser. As the benefits compound and grow over time, this research has shown that the following average benefits are achieved if financial advice commences at certain ages:

- \$91,000 if you start your savings plan from age 30<sup>4</sup>
- \$80,000 if you start at age 45
- \$29,000 if you start at age 60

#### Intrafund advice leads to more actively engaged members

Mercer undertook research in October 2013 of superannuation members who received intrafund advice, and compared them against a sample of members who received no advice. 77% of members who engaged with one of Mercer's advisers and received intrafund advice went on to taking some action. Whether this was a visit to the website, an increase in contributions through salary sacrifice, a take up of or increase in insurance coverage, an investment switch or to update their beneficiary details, the advice was acted upon and would have improved the member's superannuation outcomes.

Money Solutions has recorded similar results:

- 70% of members who received intrafund advice (about any topic) remained active members of the Fund (ie continued contributing) in the following twelve months compared to 49% of members who had only spoken to the Contact Centre
- Members who received intrafund advice were nearly four times more likely to switch investments compared to those members who spoke to the Contact Centre only – those who

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<sup>3</sup> [http://www.mercer.com.au/press-releases/Superannuation\\_Sentiment\\_Index\\_2013](http://www.mercer.com.au/press-releases/Superannuation_Sentiment_Index_2013)

<sup>4</sup> [https://www.ific.ca/wp-content/uploads/2013/09/KPMGReport\\_ValuePropOffinAdvisoryNetworks.pdf/4566/](https://www.ific.ca/wp-content/uploads/2013/09/KPMGReport_ValuePropOffinAdvisoryNetworks.pdf/4566/)

receive advice are more engaged members

- 42% of members who received intrafund advice about boosting their super made additional contributions in the following twelve months. This compares to only 17% of members who only spoke to the Fund's Contact Centre about the same issue
- Members who receive advice on one topic often act on another area of their super
- Of the members who received intrafund advice about investment choice, 28% also made rollovers into the Fund in the following twelve months.

#### 5. Compliant with the sole purpose test

Whilst the sole purpose test is overseen by APRA, trustees are required to comply with the sole purpose test as well as meet ASIC obligations. Intrafund advice meets with the requirements of the sole purpose test because advice is only provided to members about their superannuation account. Trustees are very aware of this limitation and are obliged to meet both ASIC and APRA requirements in this regard.

APRA Superannuation Circular III.A.4 sets out APRA's interpretation of this section and paragraph 43 of the Circular states:

Financial planning is now a service which many trustees are considering offering to members. As noted in paragraph 41, if the service is aimed only at a member's interest in the fund, such services would generally fall within the sole purpose test.

In conclusion, we recommend that the current definition of intrafund advice is retained and referred to in Section 960 of the Corporations Act because of the significant benefits it provides to superannuation members. Affordable advice which is easily accessed, and relates purely to a superannuation interest, will in turn deliver improved financial and retirement outcomes for working Australians.

If you have any questions in relation to this submission please contact Michael Monaghan, Managing Director of State Super Financial Services on (02) 9333 9595, or Jo-Anne Bloch, Financial Advice Leader, Mercer on (02) 8864 6159.

Yours sincerely,



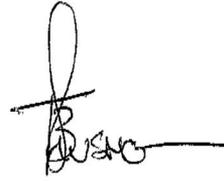
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## Background Information

### Who we are

We are a group of Australian Financial Services Licensees who represent a broad cross-section of the sector that provides financial advice to superannuation fund members. We are both for-profit and not-for-profit and provide financial advice to more than 5 million superannuation members and consumers.

We deliver fee for service advice in the best interests of members, and we comply with all the professional requirements of the Financial Planning Association and the significant legislation that applies to financial advice. Our services vary from providing intrafund and scaled advice through to comprehensive advice. We are not incentivized to provide one type of advice over another.

We are all FOFA compliant.

### Regulatory definitions

In 2013 as part of the Stronger Super reforms, intrafund advice was defined as:

1. "...the types of advice that a superannuation trustee can provide to members where the cost of the advice is borne by all members of the fund".<sup>5</sup>
2. Any advice provided by a super fund trustee excepting advice that meets the following criteria:<sup>6</sup>

(c) the advice is provided in any of the following circumstances:

(i) the subject member has not yet acquired a beneficial interest in the fund when the advice is given, and the advice relates to whether the subject member should acquire such an interest;

(ii) the advice relates to a financial product that is not a beneficial interest in the fund, a related pension fund for the member and the fund, a related insurance product for the member and the fund or a cash management facility within the fund;

(iii) the advice relates to whether the subject member should consolidate that member's beneficial interests in 2 or more superannuation entities into a beneficial interest in a single superannuation entity;

(iv) at the time the advice is provided, the subject member reasonably expects that a person mentioned in subparagraph (a)(i) or (ii) will periodically review the advice, provide further personal advice or monitor whether recommendations in the original or

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<sup>5</sup> <http://www.asic.gov.au/asic/asic.nsf/byheadline/Giving+and+collectively+charging+for+intra-fund+advice?openDocument>

<sup>6</sup> [http://www.austlii.edu.au/au/legis/cth/consol\\_act/sia1993473/s99f.html](http://www.austlii.edu.au/au/legis/cth/consol_act/sia1993473/s99f.html)

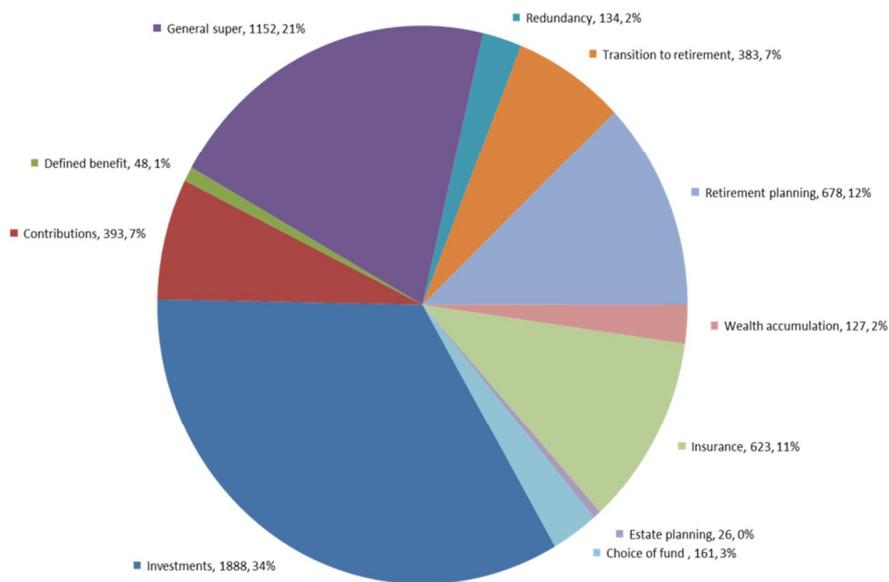
any later advice are implemented and the results of that implementation;

(v) other prescribed circumstances.

Further, “RG 244 – Giving information, general advice and scaled advice” provided certainty that advisers are able to give advice which is scoped according to the needs of the consumer.

The implications of this definition and RG 244 have been to clarify for the industry, and consumers, that financial advice of a one-off or simple nature can be delivered cost effectively.

Topics that members contacted the Mercer Financial Advice Helpline about in 2012/ 2103



## Additional benefits of intrafund advice to the industry

### Career progression for the financial advisory sector

One particular Australian Financial Services Licensee uses phone based advice as a career path for graduates coming in to the industry to develop their professional skills to become fully fledged professional financial planners.

The AFSL generally recruits graduates with a few years' experience in other parts of the financial services industry as Client Service Officers (CSO) in its Regional Offices throughout Australia. Between December 2011 and December 2013, its CSO numbers grew from 75 to 91, a 21% increase.

A typical career path for a CSO is to become a phone based Client Service Advisor, dealing with simple pieces of advice over the phone with clients, through to an Associate Financial Planner delivering both phone based and some face to face advice, and then to become a fully-fledged financial planner, either with the CFP qualification or on the path to achieving that qualification.

Over the same period from December 2011 to December 2013, the AFSL grew its financial planner numbers from 129 to 160, or by 24%. Of the 31 new financial planners over that two year period, 16, or more than 50%, came through the internal promotion route having started off as CSOs.

There is a big leap in experience and capability required to move through each stage of professional development for a financial planner – no differently to any other profession - and the phone based advice services are a very important step in helping people along the path to being able to confidently advise clients with very complex, often life changing, issues.