



YellowBrickRoad
Wealth Management

20 February 2014

Senator the Hon Arthur Sinodinos
Assistant Treasurer
Parliament House
CANBERRA ACT 2600

Cc: General Manager
Retail Investor Division
The Treasury
Langton Crescent
PARKES ACT 2600

Dear Minister,

Thank you for the opportunity to comment on the amendments to the Future of Financial Advice (FOFA) legislation that you released for public consultation on 29 January 2014.

Yellow Brick Road supports simplification of the legislation to assist in lowering the cost of financial advice for Australians and small businesses, whilst also maintaining important protections for consumers. While the FOFA reforms were well-intentioned, we agree with you that they were unnecessarily complex and therefore added unnecessary expense for Australians.

We do however urge the Australian Government to go further to assist Australian consumers by simplifying the numerous and unnecessarily complex regulations around financial advice to ensure that it is consumer-oriented, rather than being drafted from the position of the regulators. This simplification would reinforce the Government's agenda to reduce unnecessary red tape and improve efficiency as outlined in the Coalition's *Policy to Boost Productivity and Reduce Regulation*.

Financial advice currently crosses regulatory channels, which adds expense for the client and adds excessive paperwork, making it difficult and confusing for the consumer to absorb. In simplifying the regulatory burden, the processes and requirements for advice delivery across the basic needs of savings, superannuation, risk and mortgages should be simplified, particularly for those under 45 and below certain income thresholds.

In response to the Government's financial system inquiry, Yellow Brick Road has developed a 5 Point Plan for a Fairer Financial System. Too often our financial system operates for the benefit of financial insiders, rather than the majority of Australians. I have attached a one-page summary of the 5 Point Plan and also

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attached an overview of the recommendation that deals with lowering the cost of financial advice for your information.

The Executive Chairman of Yellow Brick Road, Mark Bouris, and I will be meeting with you on 11 March to discuss our draft submission for the financial system. I look forward to meeting with you then and in the meantime please do not hesitate to contact me on 0411 153 388 if you would like to discuss any of these issues.

Yours sincerely

Matt Lawler
Chief Executive Officer



ATTACHMENT A: Yellow Brick Road's proposal for simpler, more affordable financial advice

The complexity and volume of regulation in the financial services sector is serving to exclude people from the financial system.

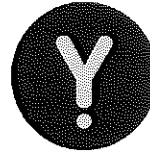
The extent of regulation adds significantly to the cost of providing services, making it unaffordable for financial services to provide simple advice that many consumers need. For example, take the situation of a person who has four superannuation accounts that seeks advice as to which account to choose. The cost to the adviser of providing the advice amounts to around \$900 and yet the average consumer would be willing to pay around \$100 for this advice. The result is twofold – some financial service advisers may avoid offering the advice; and consumers avoid seeking it.

This militates against better financial literacy amongst the community and can promote poor decision-making in the absence of expert advice. Yellow Brick Road supports the proper, effective regulation of the financial services sector. Yellow Brick Road supports Government efforts to crack down on fraud, to set minimum standards across the industry and to promote freedom of choice for consumers.

However, the core design of the regulatory system encourages artificial silos. The different application of regulation to different products, service and advice means that advisers are less able to meet the complex needs of their clients. How various products – superannuation, mortgage, personal loan, financial advice – operate in combination can be crucial to a household's financial success and budget. There are trade-offs between short-term needs and those that are more long-term that can be complex to navigate without financial advice.

Historically, regulation has been shaped heavily by a retirement lump sum and an intermediated view. This has unintended consequences for delivering affordable and comprehensive advice and services to the majority of whom are still in 'accumulation' mode and working with low levels of savings and high debt. This makes advice provided narrow and more expensive – and this is not usually in the interests of most working Australians needing financial advice. Most households need access to holistic, affordable and easy-to-use services.

It would be preferable if limits and variable depths of regulatory requirement could be imposed as floors or ceilings around investment size for example or total amount of revenue or financial risk incurred by the consumer, as opposed to product type. Consumers and service providers could then choose how and who to deliver and promote services to and under what means of distribution/engagement.



The FOFA legislation should be combined with other legislation in a way that simplifies regulations, reduces duplication and inconsistency, and is developed in a way that is consumer-centric, not sector-centric. A good example of this is the different and additional requirements when dealing with the same household on a sound package of advice relating to credit and insurance. The Credit Act and Financial Services Reform Act reflect an industry view which results in increased paperwork and a higher cost of delivery for simple and sound advice.

Legislation regarding advice delivery and compliance should be written from the 'household view' – so there is one lot of documents, training, supervision and so on for delivering services to a "accumulator" households earning under a combined income of \$120,000.

Simplification will lower costs, facilitate better and more appropriate services for the majority of Australians and open up new forms of distribution – thus building innovation and competition in the system. The result is that the outliers are able to get better access to financial advice. Now the system only favours those – the insiders – that are able to pay for such complicated financial advice.

END