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3 August 2017

Natasha Nguyen  
Lawyer  
Financial Advisers  
Australian Securities and Investments Commission

**Email:** [natasha.nguyen@asic.gov.au](mailto:natasha.nguyen@asic.gov.au)

Re. **Consultation Paper CP 284 Example Statement of Advice for life insurance: Update to RG 90**

Dear Natasha,

The Financial Planning Association of Australia (FPA) welcomes the opportunity to respond to the Consultation Paper CP 284 Example Statement of Advice (SOA) for life insurance: Update to RG 90 paper. We compliment ASIC for taking the initiative to seek outside assistance to develop this new SOA template and for raising important issues for discussion.

While the FPA commends ASIC on this approach to developing the draft example template, the FPA holds the view that example template released needs additional further amendments prior to it being established as a model Statement of Advice. There is a unique opportunity at this point in time from ASIC to provide a way forward for the establishment of best practice in terms of SOA design, both from an efficiency and cost perspective for the product of an SOA, but also in regard to improving consumer understanding and engagement with their advice document.

While the existing sample SOAs ASIC has produced haven't been broadly implemented across the advice profession, the previous iterations have been broadly used for comparative and informative purposes, and generally used on an "if not, why not" basis for developing SOA templates. From this perspective, the FPA believes the draft example SOA will be used by all professional financial planners within the financial advice industry to benchmark both their existing and future SOA templates.

The FPA has consulted widely within our membership and we would note there is strong support by financial planners that SOA templates can be made more efficient and that the use of simplified language and formats can significantly increase consumer understanding and engagement.

While a Statement of Advice is a disclosure document and not the clients financial plan, it should still be a document that addresses the needs and goals of a client; and helps demonstrate to the client how the advice and product implementation solutions will help them achieve a better financial position. It should be easily understandable with a range of strategies explained to the client. It should be accessible to clients irrespective of their learning style, level of understanding, and want for detail and figures. We believe that the current draft example SOA does not achieve this and offer ASIC some suggestions on addressing the issues we have identified.

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In particular, there is an opportunity to consider that digital technology available today – which will only improve over time – allows for the cheap and efficient production of SOAs using icons, symbols, graphics, expandable and linkable text, audio and video to better engage and inform clients. Further digital technologies allow more information to be made available to a client (and any parties reviewing the advice) without being constrained by the number of A4 pages required to be printed.

If you have any queries or comments, please do not hesitate to contact me at [policy@fpa.com.au](mailto:policy@fpa.com.au) or on 02 9220 4500.

Yours sincerely

Benjamin Marshan

Head of Policy and Government Relations

Financial Planning Association of Australia<sup>1</sup>

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The Financial Planning Association (FPA) has more than 13,000 members and affiliates of whom 10,000 are practising financial planners and 5,600 CFP professionals. The FPA has taken a leadership role in the financial planning profession in Australia and globally:

- Our first "policy pillar" is to act in the public interest at all times.
  - In 2009 we announced a remuneration policy banning all commissions and conflicted remuneration on investments and superannuation for our members – years ahead of FOFA.
  - We have an independent conduct review panel, Chaired by Mark Vincent, dealing with investigations and complaints against our members for breaches of our professional rules.
  - The first financial planning professional body in the world to have a full suite of professional regulations incorporating a set of ethical principles, practice standards and professional conduct rules that explain and underpin professional financial planning practices. This is being exported to 24 member countries and the 150,000 CFP practitioners that make up the FPSB globally.
  - We have built a curriculum with 17 Australian Universities for degrees in financial planning. As at the 1st July 2013 all new members of the FPA will be required to hold, as a minimum, an approved undergraduate degree.
  - CFP certification is the pre-eminent certification in financial planning globally. The educational requirements and standards to attain CFP standing are equal to other professional bodies, eg CPA Australia.
  - We are recognised as a professional body by the Tax Practitioners Board.
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## **FPA position on Consultation Paper CP 284 Example Statement of Advice for life insurance: Update to RG 90**

The FPA has been heavily involved in the Life Insurance Framework process since the release of ASIC Report 413, and were part of the discussions and agreement which led to the industry package of reform which was announced by the Minister for Financial Service and Revenue. This included ASIC reviewing SOAs, and the FPA thanks ASIC for the work and effort it has put into completing this part of the agreed package. Further, the FPA thanks ASIC for reaching out and requesting that the FPA provide members to assist in reviewing the draft SOA template as part of ASIC's development process.

While there has been strong consensus between Government, regulators, the advice profession and financial services industry to make amendments to the remuneration arrangements offered by life insurers following the Trowbridge report, these amendments to remuneration need to come with a reduction in costs associated with providing services to consumers, otherwise the provision of advice will be uneconomical. To this point, in agreement with The Minister for Revenue and Financial Services - the Hon Kelly O'Dwyer - in announcing an undertaking to make legislative amendments that would set caps on commissions and implement claw back arrangements, the FPA believed that there would be an undertaking by ASIC to provide the profession with guidance on developing a more efficient and engaging disclosure document. While we can understand the path that ASIC has taken with the proposed amendments to RG 90 and the draft example SOA, being to simplify language and make remuneration disclosure more prominent, our members believe this has resulted in a less engaging and more inefficient advice document for them to produce, especially when considering this document was scoped to a single area of advice on the client's needs wheel.

There is no disagreement that there needs to be a change in the structure and the presentation of SOAs which are generally provided to clients. It is therefore critical that the example SOA once released must be usable for financial planners and most importantly, easily understood by consumers. As per the Trowbridge Report which recommended a number of changes for the industry, particularly around remuneration, there were higher level consumer understanding issues which also need to be dealt with.

The FPA is concerned that the proposed update to RG 90 with the example SOA, does not meet the demanding needs of clients and advisers in 2017, and therefore the FPA would like to offer some suggestions on how to improve the draft example SOA to better meet these demands. Although the FPA agrees that there must be regulatory changes in relation to remuneration and some of the information placed within the SOA, the current RG 90 update does not meet the growing needs of clients. It fails to address the complications that may arise if the client looks for advice that is outside life insurances. It does not address issues which will arise if the client is looking for advice regarding estate planning, investment planning, cash flow planning, structuring or tax planning. The SOA does not do a good job demonstrating that the planner knows the client and knows why they have come in seeking advice. It does not demonstrate that a professional diagnosis of the client has occurred and a professional financial plan has been implemented to advance the clients financial position based on this diagnosis.

While the FPA has been a strong advocate for the professionalisation and increased clarity of fee disclosure – as demonstrated by the introduction of the FPA Remuneration Policy in 2012 - an adoption of the example SOA which is structured entirely around fees and remuneration, places the wrong focus on the significant benefits and value the advice process provides to consumers. Advice is first and

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foremost about helping clients achieve their goals and objectives and make improvements to their financial position to achieve these.

For these reasons, the FPA does not support the RG 90 update as it stands. In addition, we are concerned that the update is focused entirely on the remuneration of advisers, rather than focusing on the strategies which can be implemented for the client. This detracts from the principle purpose of the SOA, which is to help the client to reach a better financial position. While we acknowledge that Consultation Paper 284 represents a public and broad consultation process, the FPA believes that the issues raised in our responses below require further consultation with the financial advice industry, along with consumers to be undertaken, prior to releasing an example SOA template.

## **FPA Response to Consultation Paper**

### **Proposal B1**

1. Do you have any comments about the way that any of the information in the example SOA is expressed? In particular, do you have any specific suggestions about how to make the language simpler and easier for customers to understand?

#### *FPA response*

We agree that the way the information has been provided in this example SOA is a leap forward from the previous example SOAs provided by ASIC. There is better spacing, use of tables and presentation of information is clearer than the previous. In doing so, the example allows for the consumer to differentiate the types of information inside the SOA. However, there are a number of changes that would improve this example SOA. These include the following:

- The use of icons, symbols, graphics, audio and video are not considered in the template which are all widely acknowledged today as necessary to engage with visual, auditory and kinaesthetic learning styles.
  - Further, inclusion of smart graphs and smart tables would allow for a more engaging delivery of information to the client.
  - While the language used is somewhat simplified, use of simpler language must allow for clients to understand information. Risk is a complex area of advice, and insurance concepts can be particularly difficult to 'simplify' terms and ensure the client has sufficient understanding of the right direction for the client.
  - A range of terms and definitions which are abbreviated, can be very difficult for a client to understand and navigate through the SOA. Use of simpler definitions and less abbreviations to reduces confusion.
  - Remove duplicate information, as parts of the information is already outlined in the SOA and it is then also placed inside tables. Duplication leads to length, and as there is a need for SOA's to be shortened, this does not achieve the key outlines of shorter SOA's, as per the consultation paper.
  - Review the current simplification of strategies. As clients will have more complications other than just risk insurance, there will need to be more information and strategies that can be implemented.
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If the above recommendations are used to amend the current example SOA, it will vastly improve the expressed information. Although there is a need to simplify and clarify terms for the client, it should be noted that life insurance and risk insurance, is in itself a complex area of advice. Information should not be simplified for the means of just allowing the client to understand, but rather it should be paraphrased to ensure that the crux of the information still relates to the actual strategy being implemented. This will ensure that that language and information does not deviate too far from the real meaning of the terms. Again, use of icons, symbols, graphics, audio and video can assist in helping clients to understand these complex concepts, as can links to further explanations where required.

## **Proposal B2**

2. Do you think the structure of the example SOA assists customers to understand and find information? If you do not find the structure helpful, please explain why. Do you have any suggestions that would improve the structure of the example SOA so that it is easier for customers to follow? Do you have specific comments about the order in which the information has been set out? For example, what do you think about where the information about the scope of advice has been placed? Please provide explanation for your comments.

### *FPA response*

We believe that there needs to be a strong focus on reworking the structure of the draft example SOA.

The current structure of the draft example SOA is focused too largely on adviser remuneration, without a strong emphasis on demonstrating that the financial planner understands the client's needs and goals. The structure of the SOA should be there to assist clients in best understanding their current circumstances and compared to their future needs and goals. It should demonstrate that a professional diagnosis of the client has been undertaken and that the recommendations made meet the client's objectives, rather than back building from a product recommendation.

To this point, financial advice providers currently provide a financial services guide (FSG) along with terms of engagement (TOE) to their clients. These documents outline the costs and fees associated with their advice. Using a TOE allows for the client to understand the costs that they will incur, should they engage with their financial advice provider. The TOE is negotiated and agreed to by clients prior to advice being developed, and clients already sign and agree to these terms, prior to any work being conducted for them. To improve client engagement and understanding of the SOA, the focus must be on the financial plan and ensuring the client clearly understands how the recommendations assist in achieving their goals and objectives. By having a remuneration table at the front of the SOA assumes that the client has not already agreed to paying for and receiving advice. Including a fee table on the front page of the SOA detracts from the essential part of the SOA, which should be focused on providing clients with advice.

When FPA members developed the FPA Remuneration Policy (which the FPA is able to make available to ASIC again on request), the Policy called for a summary of the costs to be included at the end of the executive summary, with the main disclosure of fees in a table to be otherwise provided towards the latter part of the SOA, possibly near the authority to proceed where the client is again confirming they are happy to accept the recommendations made and implement them. The structure of the SOA therefore could be improved by having a more client focused agenda. Throughout this SOA there is a great emphasis of where the client is paying, how much the client is paying and how the client is going

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to pay. This should not be the reason for an SOA is created, particularly where the client has already agreed to this. It is to document the implementation of the advice for the client to better their financial position. The current structure looks to give the notion that the client should 'shop around', get quotes, and then look to go ahead with a financial advice provider which offers the best cost.

However, for financial planning, it is a service where you agree on prices prior to commencing the engagement. The proof of this, is the creation of the SOA which is a confirmation of the advice which has been agreed to with the client. Therefore, it is necessary to understand that the client, once agreed upon with their financial advice provider, will go ahead with the creation of the SOA. Once the SOA is presented, they have the option to proceed with all of the recommendations, modify the recommendations or look to alternate strategies. Having the fee disclosure primarily at the end of the document would allow the client to make any amendments to the implementation of the recommendations and make it clear that this will affect the cost of the services provided. However the current structure does not encourage this client and financial advice provider relationship, but rather look to create mistrust between them, based entirely on the cost of the advice.

Finally, the current SOA presented only covers that of insurances and insurance needs. Industry practiced SOA's have many other client advice needs inside the SOA. A client may need information and strategies on structuring, investments, superannuation, estate planning or retirement planning. Given the draft example SOA sample which ASIC is releasing does not give an example of all these other means of advice, there is a significant risk that SOAs will become significantly longer and harder for consumers to understand rather than addressing the goal of making the SOA more engaging for the client and efficient for the planner to produce.

It is therefore important that ASIC demonstrates that best practice in SOA design includes elements which allow for clients with all communication preferences and learning styles to be appropriately communicated with. The example SOA should demonstrate the use of icons, symbols, graphics, fact sheets, videos and audio. ASIC should further consider that we now live in a mobile first world (particularly demonstrated through Australian's high take up of smart device technology) and client communication preferences have ceased to be based on A4 paper technology. ASIC has a strong outreach program with fintech's in Australia, and therefore has an opportunity to work with financial advice technology providers who are developing digital and mobile first SOAs as a way to better demonstrate what the future of advice looks like.

### **Proposal B3**

3. Have we included any information in the example SOA that you think should be excluded? Please provide an explanation for your comments. Have we excluded any information in the example SOA that you think should be included? Please provide an explanation for your comments, bearing in mind the SOA is only one part of the advice process and that additional information can be provided to the customer in other ways.

### ***FPA response***

We agree that there is no information in the example SOA that should be excluded, other than any duplication of information. It is understood by the FPA that the update to RG 90 is to ensure that SOA's are more succinct and clear. Due to this, it is recommended that any information that is duplicated or has been already explained within the table, be removed.

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There is also various information that will be explained below, that should be included. The current example SOA has been developed based on an idea that SOAs can be a shorter and more easily understood, but in trying to do this there is vital information which has been excluded. This includes information such as estate planning, the structure of the insurances. Common scenarios such as automatic insurance loading on Zara due to prior family health issues are missing which distract from what ASIC is attempting to demonstrate. Some of this information has not been explained well in the draft example SOA and in most instances information like this cannot be excluded as it is vital for advisers to be able to provide the most accurate and relevant strategies to the client. The FPA believes the following information must be included:

- Personal client information which elaborated and considers strategies that is inclusive of all relevant information, this is in relation to the client. The draft example SOA clearly states that Zara's family history has a hereditary disease such as cancer. Almost all financial advisers working within risk insurances, this would be an alarming indicator. There is no mention here of extra loading or further medicals that Zara might need to complete due to this history (see next point). If this advice had been given using real clients, this would be negligent on the adviser's behalf. They have not addressed all the issues that is relating to the client and the strategies provided would need to be altered. The FPA believes that such inconsistent research and lack of industry use of this example SOA, has led for this example to be inadequate.
  - There is a lack of acknowledgement or education in the SOA that life insurance contracts do not operate in the same manner as investment products. While a financial planner is able to recommend a client apply for life insurance products based on the strategy they recommend, it is the right of the Life Company to ultimately accept the contract or not. In doing so there are 4 possible outcomes which may occur which are not explained in this SOA. The Life Company can accept the policy as applied, they can add loadings, they can apply exclusions, or they can decline. This draft example SOA talks to the client like they can just get the recommended cover when this is not the case. The language of the SOA should make it clear that the client is applying for a level of cover, but the strategy may change depending on the outcome achieved with the Life Company.
  - There is no disclaimers or warnings contained in the draft example SOA. It is important to give notice to the client that there may be issues in the insurances they are applying for or there might be conflicts of interest. No such disclaimers had been provided within the SOA. Disclaimers are not there just to legally cover and distance the advisers from their client. In many instances, disclaimers are there for both the adviser and the client, acting as a warning for both parties. We believe that disclaimers should be placed within the SOA, possibly within an appendix, but with reference through the SOA. Although it can be viewed that disclaimers can add length to the SOA, necessary or unavoidable disclaimers should most definitely be included. If it is not, the adviser has not acted in the best interest of the client.
  - There should be referrals to other practitioners if the client needs a better understanding of the situation. Due to this SOA being a limited SOA for risk only, there are many tax strategies that are associated in purchasing recommended insurances. A financial adviser may not be best qualified for giving this tax advice. It should be noted that this example does not include any referrals or steps to allow for the client to obtain further advice and information. The FPA believes it is critical to allow for advisers to act in the best interest of the client, if in this scenario
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there had been more complications, for example if the couple needed advice on estate planning or investment planning, it is not adequately equipped to meet the client's needs and objectives.

- We believe that there should be an inclusion of the risk research that had been completed. In doing so, the client is able to easily understand what calculations the adviser had used to make their recommendations. Most financial advisers within the industry already includes this within the SOA, to allow for a more holistic picture of the client's situation. It is both good practice and also a transparent tool for advisers to work with clients more closely, to better understand their situation. By including the risk research, the financial adviser provides the opportunity to the client to amend the calculations, by either decreasing or increasing certain income or expenses, or show the other options which might have been available but did not meet the clients particular financial situation or objectives. This will change the overall recommendation and ensure that adviser makes recommendations that more appropriate to the client.
- The FPA believe there should be an inclusion of alternative strategies. Throughout the discussion of the client needs and objectives, there is no mention of what alternative strategies that could be discussed with the client. It is strongly recommended that advisers not only present one strategy to the client, but present other possible strategies which may also achieve the client's goals. It should be noted that a client pays a considerable sum for this document, if the adviser is not able to provide alternative strategies, then it does not reflect highly of the adviser. For example, what if Zara is not comfortable with paying that premium or if Brad has had changed health conditions. By having alternative strategies or presenting more than just one product, there is more choice given to the client, which in essence, enables them to become more involved with their financial position.
- Commission tables should project an outlook of five years and should include a percentage of premium to commission. The current tables have both the amount of commission earned, however there is no direct comparison table for the proceeding five years of commissions. It should also include types of commissions, to compare which type is more appropriate to use, whilst also adding another level of transparency of the remuneration process for the financial adviser. This method is already used by the majority of financial advisers, as a measure of good practice. Therefore it is recommended that this information be included in the example SOA.

#### **Proposal B4**

1. Do you think the disclosure of commissions in the example SOA is sufficiently upfront and prominent? Please provide reasons.

#### *FPA response*

See response to Proposal B2.

#### **Proposal B4**

2. Do you think that customer understanding of commissions is enhanced by upfront disclosure? If not, why not?

#### *FPA response*

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The cost to provide advice for a financial planning business generally has 3 components. There is a cost for developing the strategic recommendations. There is a cost of determining the appropriate product to recommend to the client to achieve the strategic recommendations. And there is a cost to implementing the recommendations for the client. Each of these fees can be paid for by the client in different ways via fees, commissions, or a combination of both. In the case of commissions, there is now also the issue of clawback which must be dealt with where the policy lapses. It is up to the client to determine, once the cost of these three components has been established by the advice provider, to choose how, and in what combination, these fees are paid – and in the event of clawback – how this is dealt with. The aim of the fee section of the SOA must be to ensure that this has been accurately disclosed and is able to be easily understood by the client, but also in the context that the value of the advice process is understood by the client.

The FPA agrees that the current RG 90 example SOA document flow works as it demonstrates the value of the advice being provided to the client, then outlining the costs to the client, what the adviser is paid, then the client is in a position to decide if the advice is of value to them and can decide to implement in full, in part, not at all or explore alternative strategies. The CP 284 draft example SOA fails to achieve this. The reasons as to why it is not appropriate to begin the SOA with fees and remuneration disclosures include:

- Detrimental to the client as the document begins with a strong focus on the remuneration rather than understanding the value of their advice. As explained previously in this submission, the fee disclosure detracts from the actual strategy and recommendation, and purely focuses on the commissions the adviser will be receiving. When presenting the SOA to the client, this will be primarily in their mind, even whilst the adviser is discussing the possible strategies that can be implemented. This is not good practice or in the best interests of the client, as they will not understand what the recommendation is and what to implement.
  - A fee disclosure on the front page also commoditises the advice down to a product sale i.e. life insurance advice is invariably linked to a life insurance product. This notion of advisers just being 'sales persons', is reinforced with this form of disclosure. This should not be the case, as their adviser should be there to help them plan for a stable financial future. The client's adviser should be able to help them with all their financial needs and goals, and not be seen as just a sales representative. The implementation solutions for the strategy (i.e. the product) are the least important part of a financial plan, and while it is important to ensure clear disclosure in an SOA, the focus of an SOA should always be on the importance of implementing a plan which helps the client advance
  - their financial position against their goals and objectives. It is critical that the client understands that despite the commissions or remunerations the adviser may receive, the recommendation the advisers make, is always in the best interest of the client.
  - We believe that this type of disclosure would be more appropriate for direct or general advice insurance sales when the client is not receiving any advice. This is because those types of documents are shorter, direct and allow for the client to understand the cost and benefit quickly. However, as this is a full SOA with discussion of all the client's needs and goals, having this at the front page, does not allow for the client to explore and understand the strategies presented.
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- The FPA also believes that the disclosure also creates a focus on the initial nature of insurance advice only. It detracts from the ongoing review relationship with the client's financial adviser and the most important component being the management of claims on behalf of the client (another distinct difference between advised and non-advised clients). It is critical that the client understands that the client-adviser relationship is continuing. By having this placement of disclosure fees, it proposes to the client that it is a one-off payment, once the document is presented, there will be no further contact with the adviser. It is almost like purchasing an 'off the shelf' product from a supermarket. However, the FPA views that any financial advice is unique and bespoke to the client's circumstances. Therefore, it is often pivotal that the adviser has an ongoing relationship with the client, to ensure that they are able to assist to make changes to their plan as any further changes occur in their lives. Furthermore, the client may also need further advice on other areas of their financial planning, such as estate planning or budget planning. By having these 'one off' style of payments disclosed in the front few pages, it negates and distances the client and adviser relationship.

### **Proposal C1**

1. Do you have any comments about the drafts updated RG 90? Are there any areas where you consider further guidance is needed?

#### *FPA response*

The research that had been undertaken in preparing the SOA, the underlying clients data, goals, and objectives on which the advice has prepared, was not provided to a sufficient level to provide comfort with the recommendations, hence the accuracy and validity of this data is difficult to test. We believe that the research should be provided to the client to allow them to better understand the process that is undertaken, in preparing their SOA. In this draft example SOA, there is no further research or information given to the client. In most circumstances, for better practice, financial advisers choose to place client researching within the SOA, to encourage more engagement and understanding of advice, with the client. Furthermore, financial products and services are inherently complex and that is why advice is required. This should be made clear to clients, to ensure they are able to better understand the role of their financial adviser.

We also believe that building an SOA around a consultant does not address the issues that had been previously noted in the RG 90 old example SOA. The technical understanding and overall research that has been undertaken by a consultant to update this maybe inapt and not entirely accurate, as their knowledge of the financial advice process is limited. We recommend that there be a wider consultation with people within the financial advice industry be undertaken on the draft sample SOA. In doing so, ASIC will be able to understand if the SOA is practical with actual client circumstances. The current process of consultation with select members and advisers, does not adequately address the overall issues of the SOA, but rather it is based on assumptions on how the SOA maybe used in practice. Furthermore, there is no evidence of this example template being broadly tested with more scenarios, not just risk insurance. This could be done by allowing, for example, superannuation advice be provided, which might also include insurance recommendations. Market research through this process will ensure that the template can be utilised effectively by the entire advice profession.

The FPA also advises that there could be possible research with market leaders in SOA template generators. Software programs such as IRESS – Xplan, Midwinter – Advice OS and Advice Intelligence

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could also be consulted with, to allow for these providers to consider whether there are more effective modes of delivering this SOA to consumers, and working with licensees to test these with sample clients. This will provide a strong indication if the example SOA is able to deal with complex situations, and also if it can be worked with leading software tools. We believe that this is important to allow for a comparison between the current SOA models and this new template.

## **Proposal C2**

2. What, if any, difficulties do you think an adviser might face in adapting the example SOA to different life insurance or financial advice scenarios? How do you think ASIC advisers to overcome these difficulties?

### *FPA response*

Financial advice providers may struggle to adopt this example SOA because of the lack of complexities, information disclaimers and flexibility, that is offered by this template. The following will explain why it is difficult to adopt:

- It must be noted that this is a limited SOA and the information it provides to a client, is limited in its scope. As discussed in prior sections of this submission, as complexities intensify, this SOA may not be able to cope with the different recommendations and strategies, that an adviser will provide. Therefore, it is recommended that templates which allow for more flexibility, be produced, and given to the financial advice industry to trial. Through this testing, we are able to better understand the practicality of the example SOA, and where it can be amended. If this is ignored and the release of the example SOA is released a template, financial advice providers will face a difficult time in trying to mould their current templates, to fit exactly this release. Therefore, pre-testing is required to have a greater gauge of this templates capabilities.
- Adopting and changing current template will be expensive. Any changes to the market SOA providers can be a struggle, due to the complexity of having SOA template software providers, adopting this into their programs. Changes to templates require significant change management through training, amendments, and time to get the advice network comfortable with producing the SOA. There is also increased risk of non-compliance as SOA templates are updated and staff get used to the new structure. Therefore, adoption maybe slow at first, but if there is broad agreement that the example SOA is right, it will be implemented over time.
- These adoption problems can be overcome by allowing for greater input by financial advice providers, to amend the example SOA, prior to it being released as an update to RG 90. This will allow for a reduced lag in the adoption period, and give software providers more time to implement into their current programs. Furthermore, greater involvement by financial advisers will allow for better modifications that would be more practicable for their use. This would again reduce any adoption barriers, as it would be geared towards financial advice provider needs.

## **Proposal C3**

3. What organisational barriers exist for advisers to use the example SOA? Please explain how these barriers might hinder industry take-up of the example of the SOA. How do you
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think ASIC can assist advisers to overcome these barriers and use the new example SOA as a model in producing their own SOAs?

### *FPA response*

We believe there is a range of barriers which will affect the use of this template SOA. The following points look to discuss these issues and provide solutions which will help overcome them:

- A substantial barrier which will delay the adoption of this example SOA is the logistics of implementation, into financial advice provider firms. There is a long process that all financial adviser providers will need to manage, in order to use this template. This includes re-structuring it to their own standards, changing the language and lastly train staff to be able to use this template. Such a process can be quite daunting as it is stressful; especially whilst also, in many circumstances, the day to day running of a business must also be managed. Added pressure can lead to detrimental effects on their work management. Hence, to address this barrier, we recommend that there be teaching courses and educational resources for financial advice providers, to help learn and manage this change.
- The legalities and the costs associated to have all changed documents, reviewed by a legal team will also be a barrier. For many instances, a large change or update to financial advice providers current templates, will need to be reviewed by lawyers, prior to being used for advice purposes. This will lead to time delays in implementing the template and it being used throughout the industry. It will also have substantial costs associated to these reviews, hence why adoption could be hindered.
- Financial advice providers may also recognise that there will need to be more consumer testing and adjustments made, which will act as a barrier for them to utilise it throughout the industry. If there has been no rigorous testing of this example SOA template, it will be very difficult for financial advice providers to give advice and recommendations to their clients. Along with this, testing and adoptions of new modifications, will be a lengthy process. In ordinary circumstances, with adequate testing and research, it may take up to 18 months, prior to this example template to be used entirely. It must be also noted that the current example only outlines risk insurances. Financial advice providers will need to create new templates and restructure their documents, across all advice areas. Therefore, it will be a lengthy process which could take up a substantial amount of time. Furthermore, for individual and small financial advice providers, this change will be very costly and it may not be a viable option. Hence, acting as a major barrier for early adoption.

### **Further Recommendations**

- We believe that there should be consultation with financial advice provider software developers. We think that the current method of SOA delivery is quite outdated, and as everything is moving forward towards a paperless world, it is strongly recommended that there be a creation of a digital first example SOA. This would allow for greater engagement between clients and financial advice providers, as the entire process becomes more interactive. The current draft example SOA template would be significantly improved as a digital based template and would allow for changes and modifications, at the fingertip of the financial advice providers. This would also have a greater adoption rate as financial advice providers have generally been significantly
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quicker to adopt to technology to assist in client engagement and improving the efficiency of advice delivery over the years than other professions.

- The FPA believes ASIC has missed an opportunity to consider how advice is provided to consumers in this process, but also how ASIC receives advice for review. By encouraging the use of digital technology to provide advice to clients, ASIC will benefit from the scalable nature of a digital advice document where the client can choose to explore their advice in as much or as little detail as they choose, but by this very nature, more information is included within the delivered advice. Digital advice allows more of the advice file to be provided to the client without the concern about the number of pages the client needs to read through to understand the recommendations. For those clients who just want to know at a high level how to implement their advice, they can access this, but if they want to “crunch the numbers” themselves, this would also be available. This would improve the efficiency of ASIC investigations where only the advice is available in the first instance to conduct advice reviews.
  - ASIC has been quick to embrace the idea of automated product selection tools – often referred to as robo-advice – through their engagement with the fintech sector. We note in many other consultations, reports and regulatory guidance, ASIC speaks specifically to this sector and provides clear guidance on how ASIC’ regulatory framework works to assist them in bringing to market their solutions. We would note that this appears to be lacking in this CP, and as noted above, by not having a view to current consumer content preferences, ASIC is missing an opportunity to encourage further improvements in the cost, efficiency and consumer engagement in the advice process.
  - We further note that live data feeds of a clients financial position are often now available to consumers and their professional financial planners. These forms of data feeds and analytics provided by advice software systems – some of which are now developing artificial intelligence capabilities – allows for ongoing accountability of the financial plan for both the client and their planner. Clients are able to ensure their strategy is staying on track as their life changes, and planners are able to pro-actively and in real time monitor a clients financial plan to ensure it remains appropriate to achieving their goals and objectives. The opportunity to encourage these sort of
  - It is strongly recommended that there be consultation with the Tax Practitioners Board to ensure compliance with their regulatory requirements as well. This would ensure improved industry take up rather than having to consider how to implement a further regulatory regime into the SOA sample.
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