

ISN BRIEFING
NOTE

MEMBERS GETTING THE SUPER ADVICE THEY NEED

2011 SURVEY ON
INTRA-FUND
ADVICE

November 2011 |

[KEYWORDS]



Industry
Super
Network

Table of Contents

1. EXECUTIVE SUMMARY	2
2. BACKGROUND.....	2
2.1 What is intra-fund advice?.....	2
2.2 Consumer demand is for limited and intra-fund financial advice.....	4
2.3 Reform continues to expand the provision of intra-fund advice.....	5
3. PROVISION OF INTRA-FUND ADVICE SERVICES BY SUPER FUNDS	6
3.1 Intra-fund advice growing and expected to continue to do so.....	6
3.2 Intra-fund advice offered within full spectrum of financial planning services.....	6
3.3 Intra-fund advice delivered by both in-house and outsourced providers	7
3.4 Cost/Charging	7
3.5 Topics covered in Intra-fund Advice	7
3.6 Advice Delivery	8
4. CONCLUSION	9
5. APPENDIX A	11

About Industry Super Network

Industry Super Network (ISN) is an umbrella organisation for the industry super movement. ISN manages collective projects on behalf of a number of industry super funds with the objective of maximising the retirement savings of five million industry super members. Please direct questions and comments to:

Robbie Campo

Manager - Strategy
Level 31, Casselden Place,
2 Lonsdale Street,
Melbourne 3000
03 9657 4306
rcampo@industriysuper.com

Dr Christian Clark

Research Analyst
Level 31, Casselden Place,
2 Lonsdale Street,
Melbourne 3000
03 9657 4296
cclark@industriysuper.com

1. Executive Summary

This Briefing Note provides an update on superannuation related financial advice services, which are provided by industry superannuation funds to their members.

This Briefing Note documents observable trends in the adoption of intra-fund advice, including results of a survey of seven large industry super funds, and identifies future likely developments in the area of simple financial advice.

Industry super funds continue to deliver intra-fund financial advice services to their existing members, who would otherwise have been unlikely to receive financial advice. The survey of the seven funds found that a total of 64,184 pieces of advice had been given in the last financial year. This was an increase of 17 per cent from the previous year. Take-up of intra-fund advice is expected to be exponential in the next decade.

There are a range of regulatory developments in train which are intended to increase the accessibility of scaled financial advice, of which intra-fund advice is one component. ASIC is revising its guidance beyond “intra-fund advice” to include a wider range of topics, including some outside superannuation. In addition, one of the stated objectives of the Future of Financial Advice (FOFA) reforms is to facilitate the provision of more scalable financial advice.

The models used by industry super funds to deliver intra-fund advice are divergent and tend to reflect the demographic and needs of the funds’ memberships. However, all funds locate the provision of intra-fund advice services within a spectrum of engagement, in which members with more involved needs can be referred to more traditional full service financial advisers. However, the vast majority of funds’ members have basic advice needs, which are satisfied by intra-fund advice services.

The growth of intra-fund advice services will contribute, along with the FOFA reforms, to increasing access to advice that is appropriate and reflects the different needs of consumers in the financial advice industry. In providing intra-fund advice services to members, super funds are answering a key public policy challenge of ensuring that typical Australians are able to access the (basic) financial advice they need on their super – which is a compulsory investment.

2. Background

2.1 What is intra-fund advice?

Intra-fund advice is financial advice provided to members of a fund and which is centred on their existing interest in the fund. There has been considerable confusion regarding the definition as some have used the term to mean advice which is delivered pursuant to ASIC’s class order relief. However, in this Note, intra fund advice goes beyond the three topics which were the subject of the relief and includes superannuation related advice delivered to an existing member of a fund. Intra-fund advice is a sub-category of scalable advice.

Intra-fund advice services are driven by member demand for basic transactional assistance with their super. The types of members accessing intra-fund advice have very basic needs for advice which are not well met by any other part of the financial advice industry. Within the ‘run only to benefit members’ environment of industry super funds, the delivery of intra-fund advice is focused solely on improving the retirement incomes of members, rather than earning commissions or achieving sales targets. It should be noted that a key distinguishing factor of intra-fund advice is that it is limited to a member’s existing holding in a super product – it therefore precludes advice which involves recommending new products. Further,

since the advice is provided by, or on behalf of, the super fund, it is delivered very efficiently and cost-effectively.

There is increasing recognition of the public policy benefit of enabling members to access low cost financial advice to assist them in fully exploiting their superannuation, a mandated investment. Research affirms that intra-fund advice services are delivering the type of financial advice most needed by the bulk of Australian consumers (see next section).

The public policy grounds for facilitating the role of super funds in delivering intra-fund advice are:

- Superannuation is a compulsory investment. However, most members fail to fully exploit their retirement savings due to a lack of engagement. By allowing super funds to provide a basic advice service to existing members, members are able to access the simple financial advice and coaching they require but which is not readily available elsewhere in the market.
- Most unmet advice needs relate to superannuation, and so it makes sense to facilitate the provision of basic advice by superannuation funds.
- By limiting the parameters of intra-fund advice to advice on a superannuation product a member already holds, and excluding topics such as consolidation, switching or more complex investment arrangements, it precludes the higher risk areas of advice where a serious material conflict would be more likely to arise.
- Super funds are able to deliver basic advice services very efficiently. Efficiency is derived from creating basic modules of advice which cater to high areas of advice needs (and referring members with more complex needs to fee-for-service planning), using more efficient channels such as telephone, web-based tools and workplace-based services, and providing such services on a high volume across a fund's entire membership. Efficiency translates into low cost advice, which addresses one of the key obstacles to people seeking advice (identified in a number of research studies).
- Intra-fund advice fits within a spectrum of member engagement services, between financial literacy/general advice tools and holistic financial planning services. Like the other services which are offered by a super trustee, such as group insurance and member investment choice, intra-fund advice should be part of the member services which are able to be offered as part and parcel of a fund's service offering. Given the public policy basis for intra-fund advice being delivered by super funds, there is justification for allowing intra-fund advice to be funded from administration or product fees. Members do not generally identify their queries as "financial advice" and expect to be able to access assistance from their fund as part of the fund's standard service offering.

There exists some residual scepticism from financial planning bodies regarding the quality of intra-fund advice. These entities hold a conservative view that only holistic financial advice can satisfy professional obligations and members' needs. However, there is also an element of anti-competitive territorialism in the objections to intra fund advice from larger financial institutions that have used financial advisers as a primary distribution channel. Claims that intra-fund advice causes an unlevel playing field are really self interested complaints about the entrance of alternative providers of financial advice, particularly because intra fund advice is incompatible with their sales-based model of financial advice.

2.2 The Stronger Super and FOFA reforms will continue to facilitate the unique role played by intra-fund advice services in providing low cost, straightforward, conflict-free advice to super fund members. Consumer demand is for limited and intra-fund financial advice

There is an 'advice gap' in the current provision of financial advice in Australia. The gap is not in relation to areas of advice but between the dominant business model (which promotes holistic advice) and consumer demand (which is for limited or single-issue transactional advice).

A number of large surveys of investors and superannuation members have consistently found that limited advice is preferred to comprehensive advice. Indeed, it is the most preferred and most sought after form of advice in Australia.¹ This is true across both age and wealth cohorts.² This demand for advice, however, is not being met. ASIC's *Access to Financial Advice in Australia* report found that only 27 per cent of adviser groups promote limited advice.³

Currently, the provision of advice is concentrated in older and wealthier cohorts. For example, Forethought Research found that 27 per cent of 18-35 year olds had received advice in the last two years whereas 47 per cent of those over 55 had received advice in the last two years. The research also found people earning greater than \$100,000 were more than twice as likely to seek complex ongoing advice than those who earned less than \$100,000.⁴

These results are consistent with other research findings which document obstacles to consumers accessing financial advice. The Forethought study found that the two main deterrents which prevent people from seeking advice are the type of advice service offered (i.e. holistic or limited) and cost.⁵ This is consistent with an Investment Trends survey which found that the average price people were willing to pay for limited advice was \$301.⁶

Superannuation is consistently the most popular topic of limited advice. Moreover, a meta-study of consumer attitudes and behaviour by the Baker Group found that one in three people across age and wealth cohorts were "very likely" to take up advice if it was offered by their super fund.⁷ The provision of limited financial advice on topics related to superannuation is an affordable way to meet consumer demand and address the current advice gap in Australia. Intra-fund advice is a critical element in increasing the provision of affordable limited advice.

¹ Forethought Research, *Seeking Advice Research Executive Report*, March 2010; Investment Trends, *Advice and Limited Advice Report*, Sydney, December 2009 cited in Australian Securities and Investments Commission, *Report 224: Access to Financial Advice in Australia*, December 2010; Angela Baker, *Consumer Attitudes to Financial Advice: Research Insights - Presentation to Treasury*, November 2010, pp. 1-19.

² See in particular Roy Morgan Research, *Superannuation & Wealth Management in Australia: An Analysis of Consumer Behaviour, Advice and Fund Performance.*, 1 July 2011, pp. 1-77.

³ Australian Securities and Investments Commission, *Report 224: Access to Financial Advice in Australia*, December 2010, p 17.

⁴ Forethought Research (2010) p 11.

⁵ Forethought Research (2010).

⁶ Cited in Australian Securities and Investments Commission (2010), p 25.

⁷ Baker, pp. 1-19.

2.3 Reform continues to expand the provision of intra-fund advice

Under existing law, super funds can provide intra-fund advice by complying with Financial Services Reform (FSR) regulations (as demonstrated by ASIC regulatory guidance⁸) or by complying with class order relief issued by ASIC.⁹ Most industry super funds deliver their intra-fund advice by complying with FSR regulations. However, even in the few instances where super funds do use the class order relief, they are subject to a much higher fiduciary obligation to members arising from their trustee obligations under the SIS Act. It is not only industry super funds that offer intra-fund advice. For instance, Mercer was one of the first funds to offer phone-based advice services for members well before RG200 was released.

As part of its policy goal of ensuring that there is greater access to simple forms of financial advice, the Government's current reforms agenda continues to facilitate the provision of intra-fund advice by super funds.

The Super System Review ('Cooper Review') recommended that intra-fund advice should become available on the widest range of topics possible (subject to the sole purpose test) in order to meet the growing interests and needs of members. It recommended that intra-fund advice should be required in MySuper products. In particular, the Cooper Review recommended that intra-fund advice should be proactively offered in relation to members' insurance and periodically during a member's retirement. The Government's response, Stronger Super, has accepted the recommendation that intra-fund advice be offered as part of a MySuper product (although it did not support it as a *requirement* of MySuper products).

The Future of Financial Advice (FOFA) reforms also address consumer demand for quality and affordable advice. A central pillar of the FOFA reforms is the 'best interest obligation' that will impose a fiduciary duty on all providers of financial advice. Another key objective of the FOFA process is to increase access to affordable, scaled financial advice services. Regulatory facilitation of intra-fund advice means that super funds will be allowed to fund or subsidise the cost of intra fund advice from product administration fees.

The Stronger Super and FOFA reforms will continue to facilitate the provision of intra-fund advice by all super funds, by ensuring that basic advice can be provided to existing members as part of the product offering. However, intra-fund advice will be defined to exclude advice which relates to consolidation, super switching and all intra-fund advice will be subject to the best interests test.

Dovetailing with the FOFA reforms, ASIC is in the process of revising and extending its guidance on how to scale advice, such as including additional intra-fund advice topics and providing guidance on topics outside superannuation. In July, 2011, ASIC released *Consultation Paper 164: Additional Guidance on How to Scale Advice*, initiating the development of a new regulatory guide for the provision of scalable advice for all ASFL licensees who give advice. The additional guidance, which will be finalised once the FOFA reforms have been enacted, covers an increased range of topics now including transition to retirement, intra-pension advice, nomination of beneficiaries, superannuation and Centrelink and retirement planning generally. The new guidance will replace, but build upon and expand, the guidance and examples of RG200.

The ongoing reforms demonstrate that intra-fund advice is a legitimate, important and necessary service to

⁸ ASIC Regulatory Guide 200, Advice to Superfund Members, July 2009. There was much scepticism on the part of the mainstream financial planning community when ASIC RG200, with complaints of industry super funds being favoured with special treatment and a belief that limited advice could never amount to quality advice. We believe the positive results for consumers since the issuance of RG200 have vindicated ASIC.

⁹ CO 09/210 provides relief for super fund trustees from complying with s945A of the Corporations Act 2001 when providing personal financial advice to existing members on a very limited number of topics. However, superannuation trustees are subject to a higher requirements (including to act in the best interests of members) in s52(2) of the SIS Act even if they make use of the Class Order.

be provided by super funds to their members. Consumer demand will ensure that the service continues to grow as the services are developed.

3. Provision of intra-fund advice services by super funds

For the purposes of documenting the take up of intra-fund advice in this Briefing Note, ISN surveyed seven large industry superannuation funds regarding their financial advice services. These funds represent a significant portion of the industry superannuation sector, having a total membership of around 7.5 million members and total funds under management of \$128.2 billion. The current average balance of members of these funds is \$15,000.

The survey comprised 25 questions, both quantitative and qualitative. Questions related to the amount of advice provided, the type advice, the channels of advice provision, the advice framework, the number of advisers and their qualifications and future plans. The following sections provide a summary of the outcomes of that survey. Appendix A provides a summary of advice type and provision.

3.1 Intra-fund advice growing and expected to continue to do so

All funds involved in the ISN study provided the full spectrum of advice services to their members (general, intra-fund or limited scope super advice, and holistic financial planning advice). Funds interviewed were at different stages in the development of intra-fund and limited advice services, however most reported that they would expect very significant growth in their demand and supply of these services over the next 5 – 10 years. Funds have invested significant resources into projects to research, plan, build and deliver these services to their members.

Notwithstanding that the roll-out of intra-fund advice services is still embryonic, the funds in this survey reported that they had provided around 64,184 pieces of advice in the last 12 months. This is an increase of 17% from the 2009/10 financial year. The funds currently employ the full time equivalent of 153 financial planners. Most advice is still general advice, but provided in a more tailored manner.

3.2 Intra-fund advice offered within full spectrum of financial planning services

All funds also saw limited financial advice services as fitting within a spectrum of member engagement and financial advice. In order to ensure that members' advice needs are being properly addressed and that they have fulfilled their fiduciary obligations to members, funds have ensured that the design of their advice models incorporate effective 'triage' processes so that members with more complex circumstances or needs are referred to a planner for more traditional holistic financial advice. The kinds of members who seek intra-fund advice from super funds would otherwise have no access to financial advice - their personal circumstances and advice needs falling well below the level which would typically interest a financial planning business.

Several representative statements made by surveyed funds include:

- "Members are price sensitive and do have expectations around a level of 'help/advice' from the fund. The intra-fund advice offering enables us to increase access to affordable advice and build confidence in the value of advice."
- "Most members are seeking advice guidance and reassurance and use language such as 'help' not necessarily 'advice'. As Trustees already have a fiduciary duty with members, we believe that intra-fund advice is a critical service provided to members."

3.3 Intra-fund advice delivered by both in-house and outsourced providers

In relation to the use of in-house or outsourced providers, there are a variety of models in use by super funds. Some fully outsource all their financial advice services. Others outsource full financial planning services but provide the more limited or intra-fund services in-house. Others provide all financial advice in-house. Where planning is outsourced, funds ensure that quality service providers are selected in accordance with APRA outsourcing requirements and conflicts of interest in remuneration are not permitted.

Four of the seven super funds had their own ASFL licence, whilst the other three outsourced to wholly owned subsidiary licensees. Two super funds with their own ASFL license also outsourced some financial advice services. Only two of the funds interviewed had made use of the class order relief, but also provided intra-fund advice on a scaled basis (i.e. outside the scope of the relief). The limited take up of the relief is not surprising given the predominance of outsourced providers/AFSLs, as the relief is only available where the super fund provides the personal advice under their own AFSL. However, a number of the funds interviewed were clearly of the view that there was no distinction between the process or requirements of providing advice in a scalable manner under the existing s945A requirements and advice provided pursuant to the relief.

All super funds interviewed reported that their limited or intra-fund advice services were provided by staff who were fully qualified planners (Diploma of Financial Planning or Certified Financial Planner), with a combination of qualifications and experience as would be found in a traditional holistic planning practice.

3.4 Cost/charging

Super funds approach the charging of advice services in a variety of ways. Most provide intra-fund advice to members on the main topics of contributions, member investment choice and insurance within the fund at no additional charge to the member. These services are funded from the super fund's administration charge (although some funds have an annual cap on members' access to free advice). However, there are some funds which charge a one-off fee (between \$200-\$500) for simple advice on other super related topics, such as transition to retirement.

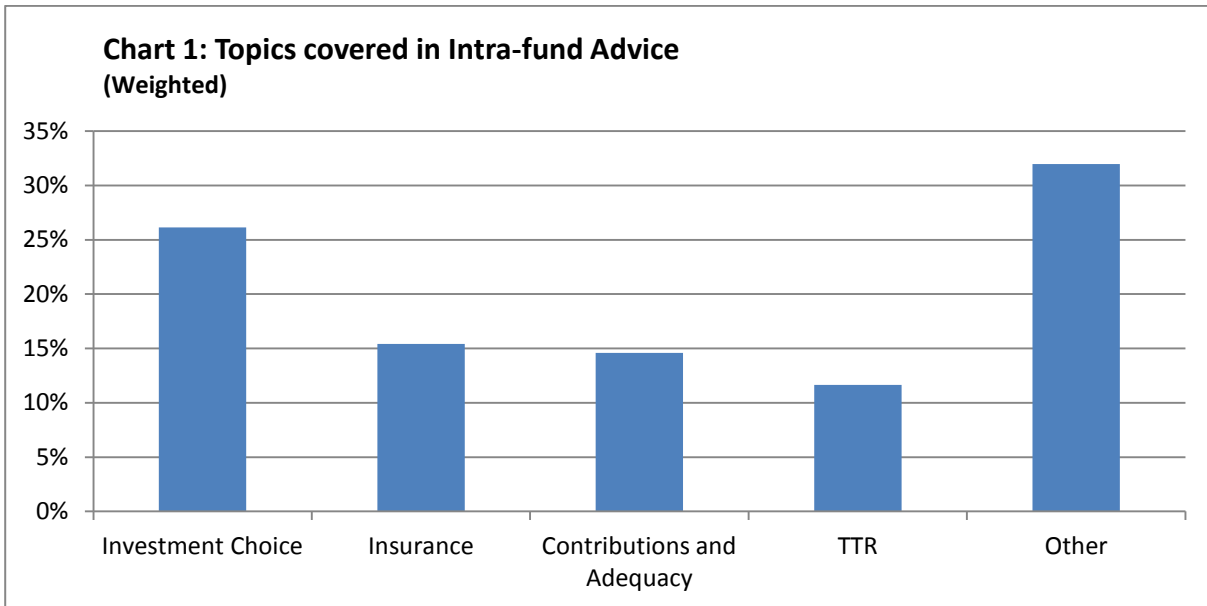
All funds charge members on a fee-for-service basis for full financial planning services. These charges range from \$285 to \$3,000+ depending on the complexity of the advice required. Where the advice is super related and falls within the sole purpose test, most super funds facilitate the deduction of advice costs from the member's super account.

None of the super funds pay or receive any commissions or volume based payments in relation to the advice services provided.

The argument has been made that the cost of intra-fund advice should be disclosed to members. As previously noted, this suggests that this particular service, as opposed to member investment choice or other services, should be treated differently - the only rationale being to ensure a 'level playing field' for financial planners. No member or consumer benefit is cited.

3.5 Topics covered in intra-fund advice

While most advice offered by the surveyed super funds is tailored general advice, there is an increasing provision of limited intra-fund advice. The most common topics for which limited advice is sought are: member investment choice, insurance options, making additional contributions and transition to retirement (TTR). TTR advice is becoming increasingly provided as intra-fund advice, for members with very straightforward financial and personal circumstances and advice needs at retirement.

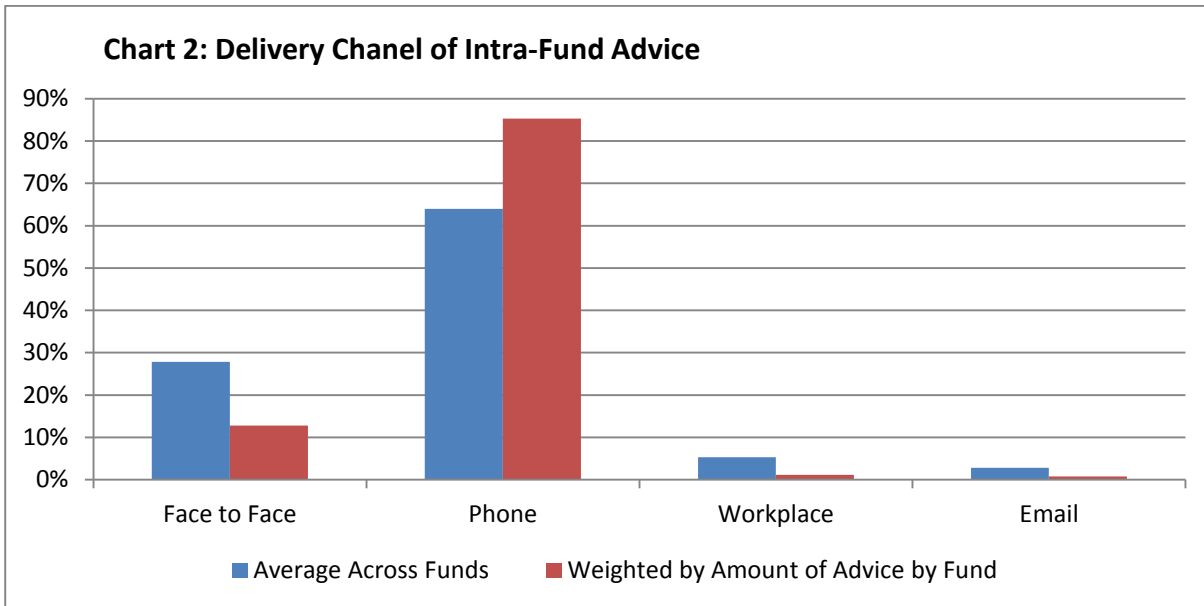


3.6 Advice delivery

Most intra-fund limited advice is delivered over the telephone, with members sent a Statement of Advice following the phone based interview (if one is required). The advice is generally modularised, although some members will elect to receive advice on more than one topic. Email was a common channel for one super fund, while another had a primarily workplace-based model for delivering intra-fund advice, where advisers attend workplaces to hold scheduled appointments with members. Some super funds also offered members the opportunity to meet a financial planner in a more traditional face to face interview but this would certainly not be typical for intra-fund advice delivery.

Intra-fund advice is initiated by the member, who typically calls the super fund's call centre and is identified as having needs which cannot be satisfied by the type of information and general advice provided by the call centre staff. Transfers to the super fund's advice teams are a seamless process for members. In most instances, the member does not identify their needs as relating to financial advice – they are typically seeking assistance with a transactional query (i.e. on the appropriate level of insurance).

Just prior to the release of this paper, one super fund launched an online tool for members to receive self-guided advice on contributions, transition to retirement (TTR) and setting up a pension account. The online service will soon include a risk profiling tool. This means there are now several super funds which offer online advice tools to members and it is likely that this will substantially increase the amount of advice delivered by super funds.



The difference between the weighted and unweighted figures shows that the super funds providing larger amounts of intra-fund advice predominantly use phone as a channel of delivery.

4. Conclusion

The intra-fund advice services provided by the industry super funds surveyed demonstrates that intra-fund advice is a valuable and increasingly necessary service for their members. Since the release of RG200 in 2009, super fund members have been able to receive basic advice on their super, which they would otherwise not have been able to readily or affordably access. While this survey is limited to intra-fund advice services offered by industry super funds, a number of retail super funds are also rolling out or already operating such a service to their members. Future changes in the regulation of financial advice will ensure that more scalable advice is available, particularly in the area of intra-fund advice.

A modelling of the impact of the proposed reforms has demonstrated the growth and potential of limited personal advice. Rice Warner Actuaries predict that by 2024, limited advice will constitute over 40 per cent of all pieces of advice, in comparison to constituting less than 10 per cent currently.¹⁰

Intra-fund advice is an important step in the maturity of Australia’s compulsory super system, giving access to invaluable financial advice to members who otherwise may not have been able to fully utilise their superannuation. Intra-fund advice provides a critical engagement tool, especially for members who are just realising the potential of their superannuation savings. While the parameters of intra-fund advice are quite limited, they address the main areas of financial advice need, which research shows is not met by traditional financial planning practices. Super funds report that members who have a positive experience of intra-fund advice will often seek out more advice, including traditional holistic financial advice.

Perhaps most pertinent is that the market for financial advice is evolving, driven by consumer demand and technology. Intra-fund and limited advice models – whether web-based or phone-based – are fast becoming a new and efficient channel for the delivery of financial advice to people who previously did not seek financial advice.

¹⁰Rice Warner Research, March 2010, *Transformation of the Financial Advice Industry*, commissioned by Industry Super Network.

Market forces are driving new and exciting ways for Australians to get financial advice. Efforts being made to stop funds providing intra-fund advice are not only ignoring consumer demand and technological development, but more importantly, will reduce access and ultimately provision of advice to Australians compelled to save for their retirement.

5. Appendix A

Table 1: Participating Funds

Participating Funds	Funds Under Mgt (\$billion)	Members
AustralianSuper	\$41	1,800,000
Cbus	\$16.7	661,633
HESTA	\$18	720,000
HOSTPLUS	\$9.4	985,000
REST Super	\$20.2	1,991,107
Sunsuper	\$20	1,200,000
LUCRF Super	\$2.9	188,000
TOTAL	\$128.2	7,545,740

Table 2: Advice Results (Aggregate)

Type of Advice	Pieces of Advice Delivered
General Advice	50,820
Limited Advice	14,964