The Future of Advice

Overcoming challenges to deliver great consumer outcomes

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CA ANZ promotes the Chartered Accountant (CA) designation and high ethical standards, delivers world-class services and life-long education to members and advocates for the public good. We protect the reputation of the designation by ensuring members continue to comply with a code of ethics, backed by a robust discipline process. We also monitor Chartered Accountants who offer services directly to the public.

Our flagship CA Program, the pathway to becoming a Chartered Accountant, combines rigorous education with practical experience. Ongoing professional development helps members shape business decisions and remain relevant in a changing world.

We actively engage with governments, regulators and standard-setters on behalf of members and the profession to advocate in the public interest. Our thought leadership promotes prosperity in Australia and New Zealand.

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We also have a strategic alliance with the Association of Chartered Certified Accountants. The alliance represents more than 870,000 current and next generation accounting professionals across 179 countries and is one of the largest accounting alliances in the world providing the full range of accounting qualifications.

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Foreword

Expert advice is the cornerstone of effective decision-making. Given the impacts of an ageing population, retirement savings, and ongoing concerns around financial literacy, now more than ever everyday Australians and New Zealanders need access to affordable, quality advice.

These needs are also changing and evolving depending on what point in their lives people seek advice, with younger people more likely to need advice on paying back student debt while older people plan for retirement.

However, we are at a crossroad. Against a backdrop of forecasted growth in the demand for advice, households, small businesses and advisers are all of the view that advice needs to become cheaper, more personalised and more transparent in the future.

In fact, when asked about the future of advice, the number one change people wanted is to make advice less expensive.

There are very clear regulatory barriers that prevent this from happening, particularly in Australia.

Currently, advice in Australia is primarily regulated along product lines requiring different licences and requirements to provide varying types of advice.

This makes it difficult to receive the expert advice required to meet all of an individual's wide- ranging advice needs. Advice can often fall under multiple regulatory frameworks in the same conversation, or even the same sentence and this is confusing for consumers.

Advisers need to be able to look at a client's whole financial picture to provide the right advice.

While additional regulation on advisers is aiming to push the industry up the professional curve and provide better protection for individuals and businesses alike, it is having the unintended consequence of making advice unaffordable and inaccessible for more people.

The Australian Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry, and recent reviews in New Zealand by the Financial Markets Authority and the Reserve Bank, show short comings in the financial advice industry.

However, beefed up regulations and qualification requirements to improve the quality of advice are seen by most advisers as barriers to improved affordability especially when there are double-ups on requirements for those belonging to professional associations, adding extra costs and time.

We are working on, and advocating for, a framework that will give people not only access to the advice they need, but the ability to understand that advice.

That is the goal we are working towards, as we believe the power of good advice is immeasurable.

Simon Grant, FCA ACCA Group Executive, Advocacy & Professional Standing

Executive summary

Expert financial advisers well positioned for the future.

Changes in population, household wealth, technology, regulation and consumer preferences are having a powerful impact on advice for our finances.

The work of advisers is becoming increasingly complicated, driven by the globalisation of financial markets, ever-more sophisticated financial products and low interest rates. Many consumers are also looking for socially and environmentally responsible investment opportunities.

Overall however, the future looks positive for advisers.

On current trends, Australians and New Zealanders seeking financial advice will, on average, be older and more wealthy. This points to growing demand for advice on tax, banking, insurance, mortgages, investments, savings and superannuation.

When it comes to what that advice will look like, the *Future of Advice* finds that technology use is at an early stage. In our survey conducted for this report, only 12% of people have heard of robo advice, and after it is explained, a significant percentage are not comfortable with the loss of face-face contact. However, advisers see technology as part of a blended offering which will help keep costs down, by replacing repetitive, impersonal tasks and assisting with compliance.

While there has been an obvious need for greater consumer protection, advisers want regulators to get the balance right for financial services and financial products and not reduce flexibility and add compliance costs that have to be passed onto consumers.

Despite the attention of regulators, and negative media reports, our survey shows the advice industry is – perception wise – in a healthy state. Negative views of the industry are very low on the list of reasons for not getting advice.

Australians and New Zealanders, in the main, report positively after receiving advice. Four in five say they feel more informed, 69% have greater peace of mind and 68% feel more prepared for the future.

Accountants are seen as the most competent source of advice, followed by banks, lawyers, financial planners and family and friends.

The *Future of Advice* shows that among Australians and New Zealanders, family and friends are considered the most trustworthy sources of advice. Accountants and banks are the next most trusted.

Challenges

People are not thinking or talking about their finances as often as many might expect. More than half have not considered changing management of their household budgets or their mortgage and banking arrangements in the past year.

A strong desire to retain control is apparent. This is among the main reasons for both Australians and New Zealanders for not seeking advice. They also want advice to be more affordable and personalised. Overall, only 40% of people seek financial services advice.

From the advisers' perspective, increasing regulation, ever-expanding demands for qualifications and experience and increasing segmentation of the market are seen as their key challenges. While regulations and qualification requirements are intended to improve the quality of financial services advice, most advisers see these as challenges to making advice more affordable.

The explosion in the number of financial products, and their complexity, can make it difficult for consumers to identify and understand what advice is best for them at different stages of their lives. The failure of financial literacy to keep up is compounding this situation.

As the *Future of Advice* shows, professional advisers are well placed to help Australians and New Zealanders overcome these twin problems – meeting people's changing financial needs and managing an ever-changing financial environment.

1. The need for advice

This paper looks to understand the future of advice in Australia and New Zealand – how do people use advice today, and how will this change in the future? It presents new evidence from two surveys, one of individuals and one of advisers, as well as drawing on other research, to answer these questions.

Defining advice in this report

Financial services and financial products are core to how businesses and consumers interact and transact every day. Most people interact with a range of financial products at various points in their lives, including:

- transactional banking
- insurance products (for cars, homes, income or life)
- mortgages
- investment and savings vehicles, like term deposits and shares
- long-term savings through superannuation.

Advice can be defined by either the provider, that is, who is providing the advice (for example, an accountant, a lawyer, or a registered financial adviser) or the content of the advice (for example, whether it relates to estate planning, investing, insurance or savings). This report focuses on financial advice and taxation/accounting advice, in the areas related to:

- investment
- tax
- superannuation
- retirement planning
- accounting
- debt management
- wealth management
- insurance
- banking

The report does not cover other forms of advice, such as:

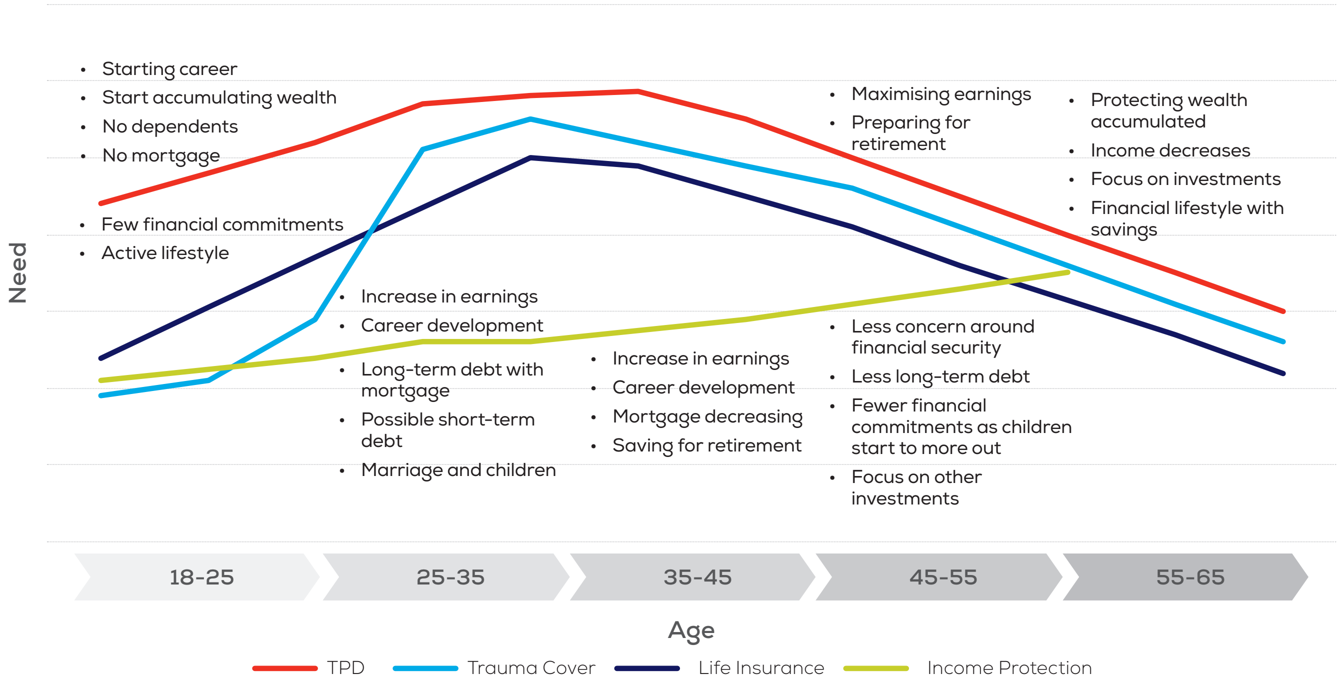
- health
- legal
- information and technology (IT)

1.1 Advice through life

Individuals personalised financial situations and goals can differ greatly, and so they use advice differently. For instance, individuals with lower incomes might seek advice on making and sticking to a budget, while more wealthy people use investment and wealth management advice. Likewise, people have different levels of financial literacy, and so require different levels of advice to compensate.

Moreover, demand for advice changes over time, even for one person, depending on their stage of life. As a person ages, their income shifts, and their living situation evolves, they will seek advice on different issues. For example, younger people are more likely to need advice on paying student debt, or saving for a home deposit, while older people look for advice on retirement planning. As Chart 1.1 shows, even when looking just at insurance, an individual needs advice on different issues over time.

Chart 1.1: Different needs for insurance as an individual ages[1]



Source: finder.com.au, Deloitte Access Economics

1.2 An increasingly challenging financial landscape

The financial world is getting more complicated. Financial markets are increasingly globally-connected, and there is an ever-growing range of sophisticated financial products available for individuals to invest in. Also, the low-interest rate environment means that the financial environment looks very different today than in previous decades.

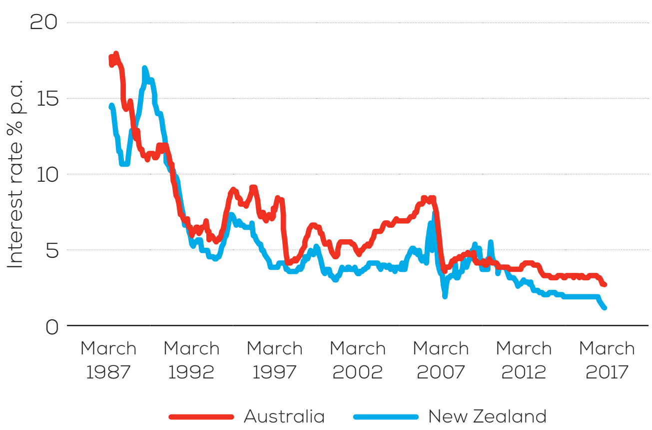
The increased number of products available, along with increases in the number of features in each product, can make it difficult for consumers to identify and understand what is most suitable for them. For many, finding relevant products is associated with high search costs.

The increase in complexity in the market has not been matched by improvements in financial literacy. The Australian Financial Attitudes and Behaviour Tracker found that only one in three Australians understood the concept of the risk/return trade-off and diversification,[2] and Klapper et al. found that just 64% and 61% of Australian and New Zealand adults respectively are considered 'financially literate'.[3] Moreover, behavioural finance has demonstrated time and time again that humans often do not make the rational choice, due to our inbuilt behavioural biases.

A common solution to these two combined problems – the individuals' differing financial needs over their lifetime and the ever-changing financial environment – is professional advice. By educating consumers and reducing information asymmetries and search costs associated with financial products, advisers can help consumers (and the financial services industry in general) to achieve better outcomes.

Chart 1.2 shows how interest rates on 6-month bank term deposits have fallen, especially over in the past two decades.

Chart 1.2: Interest rate (6 month term deposit) in Australia and New Zealand over time



Source: Reserve Bank of Australia and Reserve Bank of New Zealand

This trend of low interest rates and lower levels of return results in an unfamiliar world for investors. Low interest rates affect those that rely heavily on interest income, including retirees. For these groups of individuals, it is important to find investment options that provide adequate cash flow to help them meet their living expenses. And with lower income, managing costs also becomes more important. Sound financial advice can help people meet these challenges.

Survey methodologies

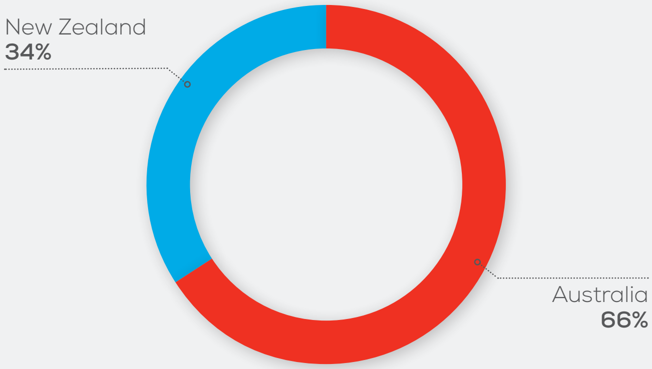
Two surveys were conducted:

1 Individuals aged 18 and over were asked about their attitudes to, and use of, advice.

2 CA ANZ members were asked similar questions, to gauge industry opinions about advice.

The survey of individuals had respondents from Australian and New Zealand households and owners of small businesses. Respondents were asked about their attitudes and feelings towards advice, reasons behind their usage of advice and their perceptions about the future of advice. Dynata fielded the survey in August 2019.

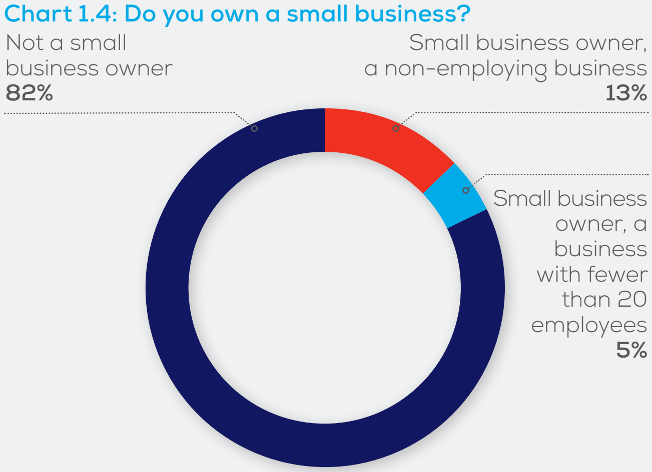
Chart 1.3: Country of respondents



Source: Deloitte Access Economics based on Dynata data, n=1,748

Over 1,700 responses were collected and used for this report, two-thirds of which were from Australia, and one third from New Zealand. The sample is nationally representative along state and territory/region lines in Australia and New Zealand respectively.

Chart 1.4: Do you own a small business?



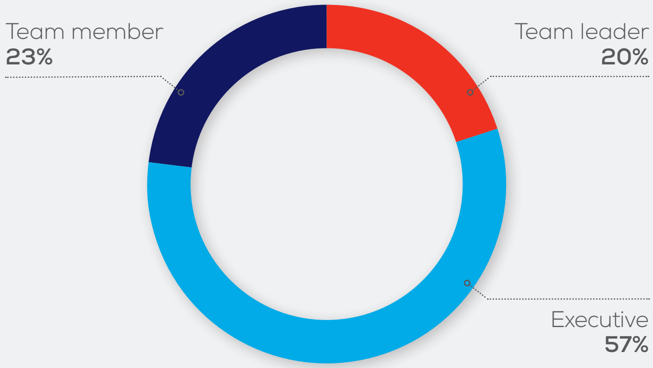
Source: Deloitte Access Economics based on Dynata data, n=1,748

Around 18% of respondents surveyed own a small business; 13% are non-employing businesses and 5% employ fewer than 20 employees.

The second survey respondents were members of Chartered Accountant Australia and New Zealand. They were asked how they, as representatives of the advice industry, felt about advice. CA ANZ fielded the survey in October 2019.

Over 280 responses were collected and used for this report, around three-quarters of which were from Australia, and one quarter from New Zealand.

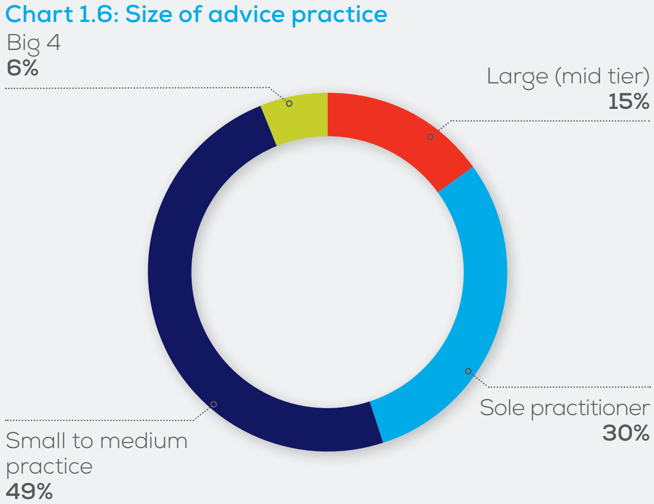
Chart 1.5: Career stage of respondents



Source: Deloitte Access Economics based on Chartered Accountants Australia and New Zealand data, n=283

More than half of respondents surveyed held an executive position (experienced leader responsible for the governance of an organisation, or advising others at this level) in their careers, while one fifth were Team leaders (who may manage a team, function, division or business unit, often have formal direct reports) and the other one fifth were team members (hands-on employees).

Chart 1.6: Size of advice practice



Source: Deloitte Access Economics based on Chartered Accountants Australia and New Zealand data, n=283

More than half of respondents surveyed represented small to medium sized practices, with one third being sole practitioners and the remaining respondents representing large mid-tier practices and the four biggest professional services firms (EY, KPMG, PwC, Deloitte).

2. Trends in advice

People use advice in different ways and for different reasons, but there are some broad trends that are changing the way advice is used in Australia and New Zealand. Demographic change means that the types of advice being sought are shifting, technological advance is redefining the way advice is delivered, and regulatory change and ever-shifting consumer preferences mean that the industry is constantly evolving.

2.1 Demographic change

Australia and New Zealand, like most developed countries, have ageing populations. The number of Australians aged 65 and over is projected to double over the next 40 years, and retirees will make up a much higher proportion of the total population in the future.[4]

Individuals have differing advice needs as they go through life. As older people transition from earning income (known as the wealth creation phase) to retiring and using their savings, they need advice on retirement planning and wealth management, as opposed to younger people seeking budgeting advice or mortgage advice. And with people living longer, the need to carefully manage finances in retirement is increasingly important as they may not be able to return to work and earn an income again.

Longer life expectancy could also result in a higher risk of cognitive decline, with the incidence of dementia drastically increasing past the age of 75.[5] This may drive demand for advice, with more people outsourcing to professionals to inform their decisions.

The population is also becoming wealthier. In Australia, the median household net worth increased from $452,100 to $558,900 over the past 10 years.[6] Similarly, in New Zealand, median household net worth has also been increasing, growing from $289,000 in 2015 to $340,000 in 2018.[7] As people become wealthier, they will have more financial options. This could result in an increased demand for advice as households might need advice to ensure they are making the best decisions.

Notably, women are becoming more involved in household financial decisions. US research of married women showed 11% of baby boomers are likely to be the main decision maker on financial issues, compared to 22% of Gen X women and 38% of Millennials.[8]

2.2 Technological change

Technological advance is disrupting every industry, and professional advice is no exception. New technologies are changing the way advice is sought, generated and delivered.

Possibly the most significant change in the advice industry is the introduction of 'robo advice'. Robo advice uses computing programs to generate customised advice based on information about an individual's financial circumstances. By 2020, it is estimated that globally, between US$2.2 trillion and US$3.7 trillion in assets will be managed with the support of robo advisers.[9] Robo advice can be used to allow advisers to outsource some of the routine work and focus on helping customers to interpret and apply the advice. At this stage awareness of robo advice is low: our survey found that 82% of people had not heard of robo advice. Another survey found that only 1% of Australians have ever used robo advice.[10]

Technology is also giving consumers more control. Apps have been developed that allow people to self-manage their finances: for example, micro-investment tool Raiz (previously known as Acorn) is a mobile investment application that automatically invests spare change into a diversified portfolio of exchange traded funds (ETFs).[11]

These technologies are not yet widely used, but they could change the way people interact with financial advisers. The apps can collate and analyse large amounts of information for consumers, and the role of the adviser is to assist with interpretation.

Government financial services are also increasingly being digitised. One example is myTax (Australia) or myIR (New Zealand), which allows individuals to submit their tax returns online. The systems prepopulate much of the information needed, making tax returns less burdensome. The myTax system was used by more than 3.5 million individuals to lodge their tax return last year.[12]

AI systems may result in a new benchmark for fiduciary care, data stewardship and consumer sovereignty. However, to move ahead with AI, governments still need to work out how to integrate it responsibly into the financial system, by answering questions such as:[13]

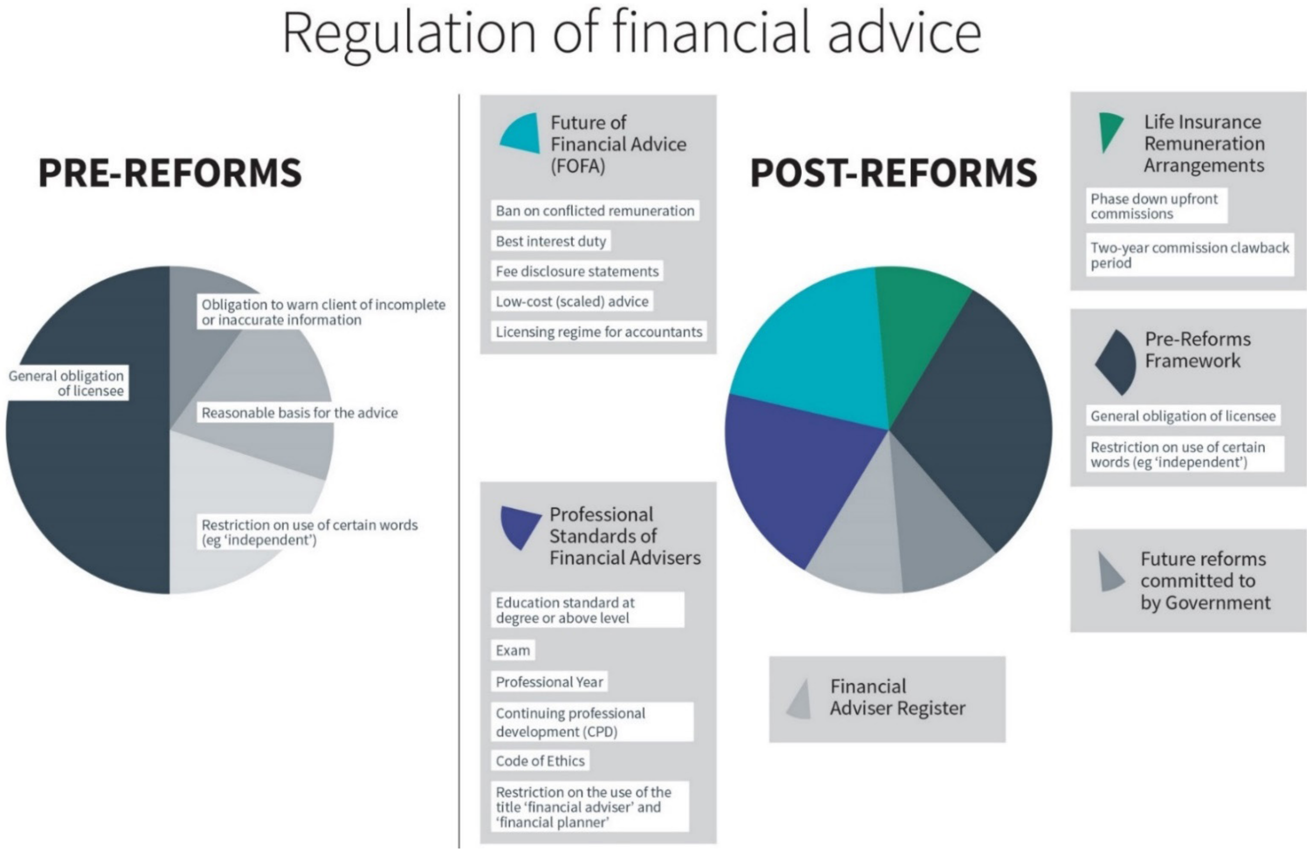
- can institutions ensure their systems will not evolve to discriminate against a particular group?
- can AI deal with human notions of fairness?
- can an AI system explain its decision process to humans and can an AI system truly understand the decision process of humans?
- how do you prevent AI systems learning to engage in anti-competitive behaviour?

2.3 Regulatory change

In recent years there has been a push by policymakers to reform the advice industry, putting the customer at the centre and increasing the levels of protection for them. Since 2007, there have been several different reform packages in Australia, including:

- Future of Financial Advice (FoFA)
- life insurance remuneration
- establishment of a Financial Advisers Register
- development of professional standards for financial advisers.[14]

Chart 2.1: Regulation reforms in financial advice in Australia[15]



This diagram is for illustrative purposes only. The proportions are not necessarily representative of the actual, or relative, significance of each reform.
Source: Australian Treasury

These reforms aim to improve the quality of financial advice by ensuring that incentives for the advisers align with those of the consumer, improving the transparency of credentials and supporting training standards. However, these reforms limit the type of advice that can be given and do not take into account the evolving needs of consumers over their lifetime.

The increased level of regulation does have cost implications. A more educated and credentialed adviser could charge more for services to recoup these higher costs. The Australian Treasury notes that the key challenge in regulation in the financial advice sector is balancing the best level of protection for the consumer while ensuring that advice remains affordable.[16]

New Zealand's Financial Services Legislation Amendment Act (2019) introduced a range of reforms to *"ensure that the conduct and client-care obligations of financial service providers and the regulation of financial markets remain fit for purpose.". The new regulatory regime is intended to improve access to, and the quality of, financial advice.*

2.4 Changes to consumer preferences

Consumer preferences are constantly evolving and changing, and demand for different types of advice, as well as methods of receiving advice, change with them. Increasingly, consumers are focussed on ethical investment, the importance of convenience and trust.

Consumers are increasingly concerned with being socially responsible, and this applies to their investment choices as well. Many consumers look for socially and environmentally conscious investment options, for instance, Verizon's US $1 billion green bond (where the money raised supports investments in renewable and energy efficiency projects) drew orders for eight times its offering amount.[17] But finding sustainable investment opportunities can be challenging, there is often a lack of transparency around these issues, and ethical investors may look to professional advisers for help.

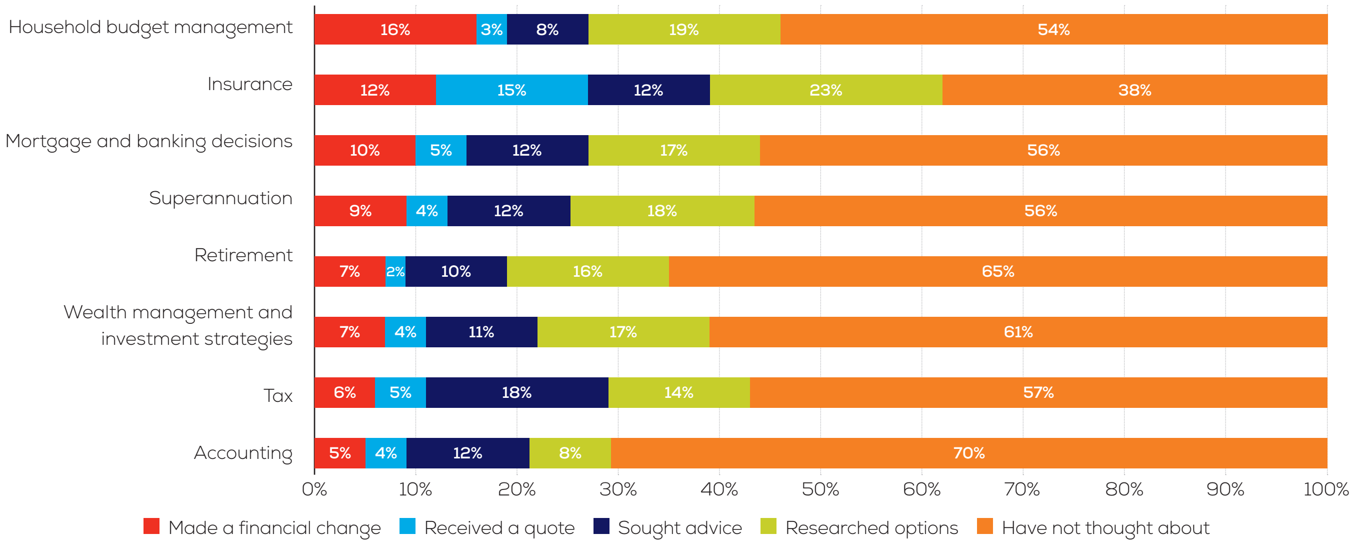
Consumers are also increasingly driven by the desire for convenience. Technology allows global connectivity in real-time, and consumers expect financial decisions to be just as easy. This demand for convenience has shifted some borrowers from traditional banks when shopping for personal loans as they move to digital, mobile-centric platforms and lenders.[18] As the demand for real-time and convenience is supplied by new financial products or facilitated by technology, it will change the types of advice consumers will be seeking as well as the way advisers deliver their services. For example, one study found 49% of millennials prioritise convenience above all else from their banks.[19] In particular, to engage the younger generations as they come into more wealth, financial advisers will need to move with these trends.

3. Consumer decisions

Many people are not thinking about their finances as often as you might expect; they are not practicing the skills they need to make important financial decisions.

Chart 3.1 shows that many people have not thought about making a change to different aspects of their finances in the past year. For example, 54% of respondents had not considered changing their household budget management, while 56% had not thought about changing their mortgage and banking.

Chart 3.1: In the past year, did you think about making a change to your financial situation in these areas?



Source: Deloitte Access Economics based on Dynata data, n=1,671 (multiple responses)

This level of thinking about changing financial arrangements is consistent with other research on consumer choice. For example, the *Choice in Banking* report *found that in a 12-month period 67% of mortgagees and 79% of transaction account holders were satisfied with their current bank, 23% and 22%, respectively, were actively searching and 5% and 15%, respectively, switched banks.*[20] This compares to 17% of respondents in this report researching their mortgage and banking options and 10% making a change.

Insurance is the most common area where people have thought about making a change, with 62% of people having taken some sort of action in the past year. This is likely because many insurance policies must be regularly addressed (e.g. car insurance, health insurance, home insurance etc.) while the other areas are more based on specific events such as retirement or obtaining a mortgage.

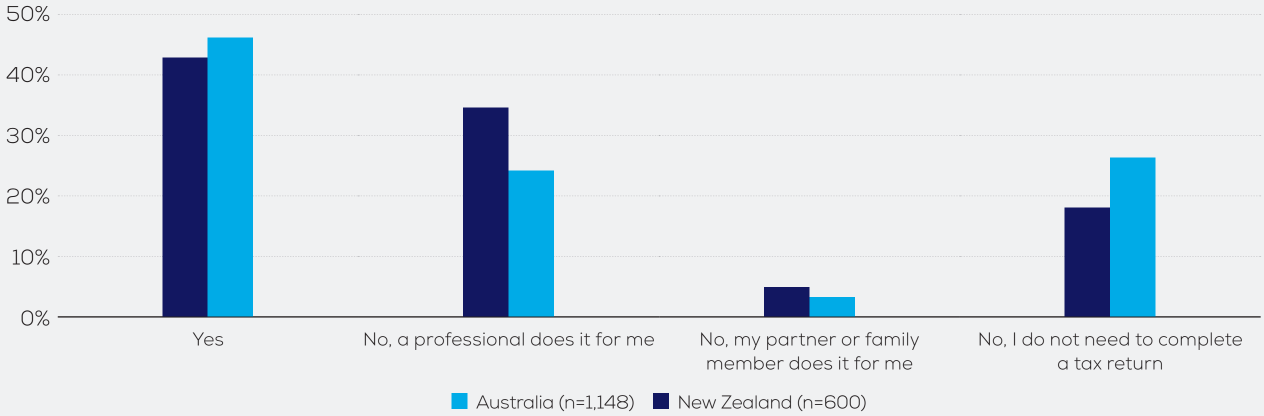
The household budget is the thing most commonly changed, with 16% of all respondents stating that they have made a financial change in the past year. Many events (e.g. job change, change in family composition, moving house) could trigger a rethink of the household budget.

Of all the areas, tax has the highest proportion of people seeking advice, with 18% of all respondents (18.5% of Australia respondents and 17% of New Zealand respondent) stating they sought tax advice in the past year. This reflects tax being a complex and recurrent issue. It may also reflect the cost of tax advice compares favourably to some other forms of advice, relative to the size of the return and the certainty of the financial outcome.

Tax returns

Many people submit tax returns, but that doesn't mean that everyone knows how to do tax returns. For example, we find that tax is the most common issue to seek advice on. Chart 3.2 shows that one in three Australians ask a professional to submit their tax return for them, while one in four New Zealanders uses a professional for their tax returns. One reason for why this percentage is lower in New Zealand might be that New Zealanders are not required to submit a tax return if all their income is taxed at source.

Chart 3.2: Do you do your own tax returns?



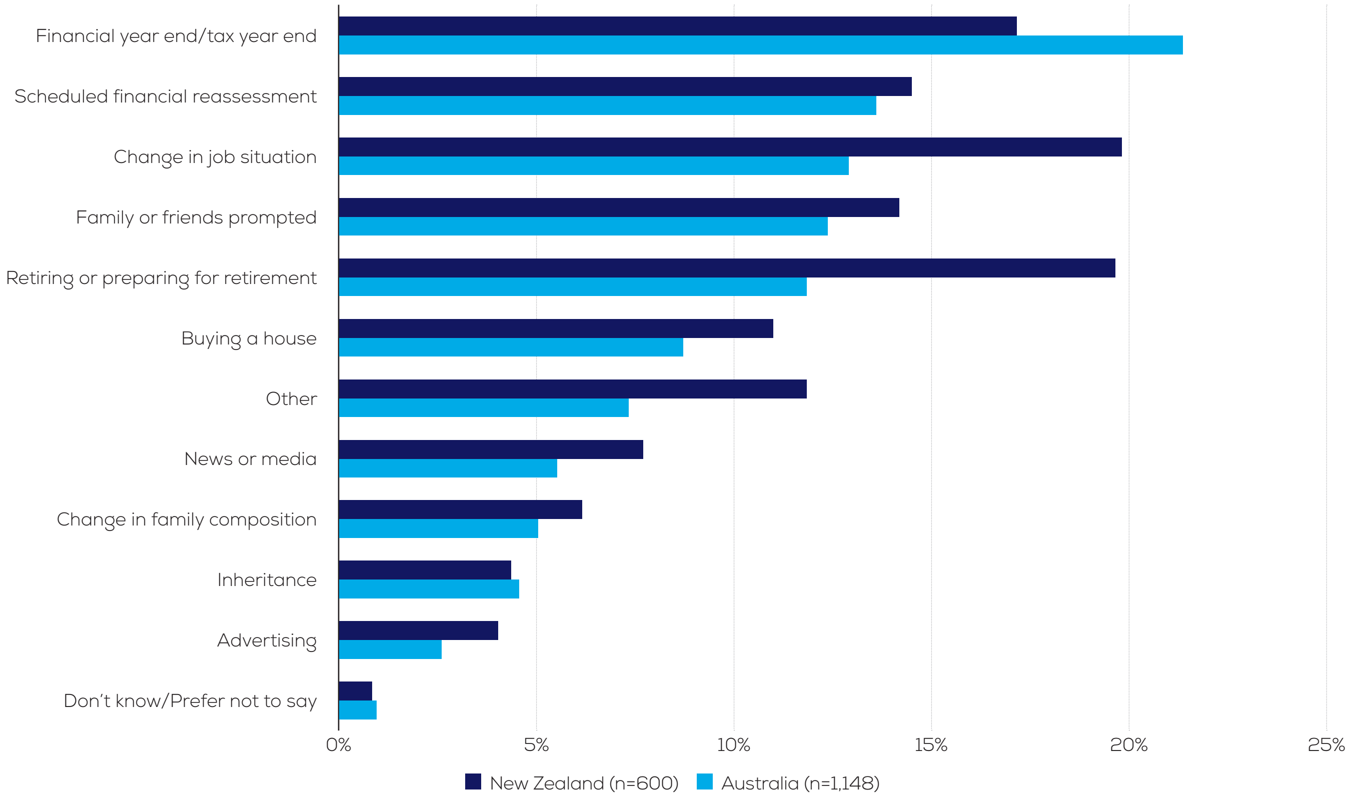
Source: Deloitte Access Economics based on Dynata data, n=1,748

We also find that doing your own tax return is less common among older people, with 16% of 18-24 year olds using professional help on their tax returns, compared to 39% of 55-64 year olds. This suggests the tax returns of older individuals are more complicated than those of the younger individuals.

Many events could prompt individuals to rethink their personal finances, such as starting or changing jobs, and family events such as births or deaths. Chart 3.3 shows that a common event for individuals in Australia and New Zealand that prompted them to rethink their personal finances is the end of the financial year (EOFY), selected by 21% of all Australia respondents and 17% of New Zealand respondents.

This is not surprising, even those who are relatively disinterested or not well informed about finances would be prompted to rethink things at the end of the financial year, e.g. when they are considering their tax return.

Chart 3.3: What prompted you to carry out the action about your financial situation (most recent)?



Source: Deloitte Access Economics based on Dynata data, n=1,748 (multiple responses)

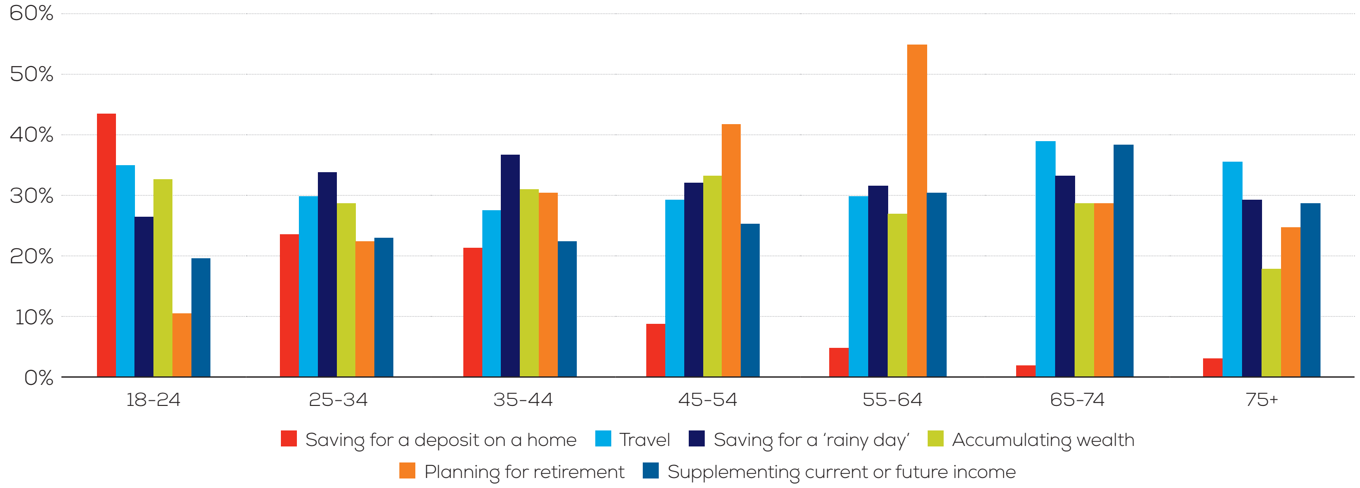
A job change is also an event very likely to trigger a reassessment of finances (selected by 13% of Australians and 20% of New Zealanders) followed by the need to prepare for retirement (selected by 12% of Australians and 20% of New Zealanders).

Interestingly, news and media, and advertising are far down on the list of triggers. Perhaps they would influence the individual's relationship with their financial situations in other ways, however, they seem not to be a big influence on *prompting* the individual to take action related to their financial situation.

One factor looming large in consumers decisions is their financial goals. Chart 3.4 shows that 'saving for a rainy day' is consistently a top goal, regardless of age. Saving for a deposit on a home is one of the top goals for young people, but the portion of people with this goal decreases with age (presumably they already have bought a home by the time they are older).

Conversely, planning for retirement becomes increasingly important as people age, as this is the top goal for people in their 50s and 60s. For those aged 65+, supplementing income becomes the main financial goal.

Chart 3.4: What are your top three goals when (or if you were) investing?



Source: Deloitte Access Economics based on Dynata data, n=1,748 (multi-response).
Other options with fewer responses include purchasing a vehicle, paying for a wedding, paying a debt, starting a new business, saving for a child's education, to have something to leave for my children, other, no specific goals, and I don't invest.

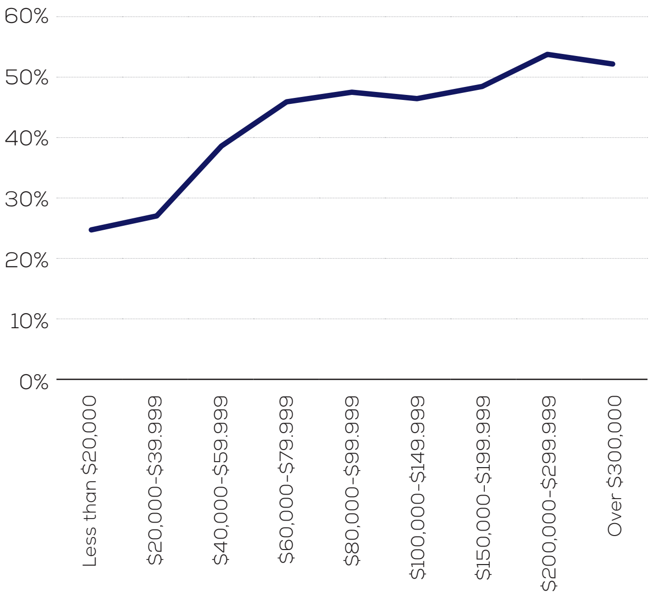
These changing goals (across age cohorts) suggest that people need different types of advice over time. For example, mortgage advice is needed more by younger individuals saving for a home, while investment advice is more appropriate for older individuals looking to supplement or manage their incomes in retirement.

4. Why use advice?

Advice can help navigate tough financial decisions, yet our survey finds that only two in five people have received professional advice in the last 12 months. Similarly, ASIC in their survey of what consumers really think about financial advice found that only 27% of Australians had received financial advice in the past.[21]

Chart 4.1 shows that the use of advice does vary by income, those with higher incomes are more likely to use advice. Just 25% of those with annual household income less than $20,000 use advice and this proportion steadily becomes higher as income increases, with about half (52%) of those with a household income above $300,000 using advice.

Chart 4.1: Uses of professional advice, by income



Source: Deloitte Access Economics based on Dynata data, n=1,748

Use of advice varies somewhat by age, but does not vary significantly by gender or risk attitude:

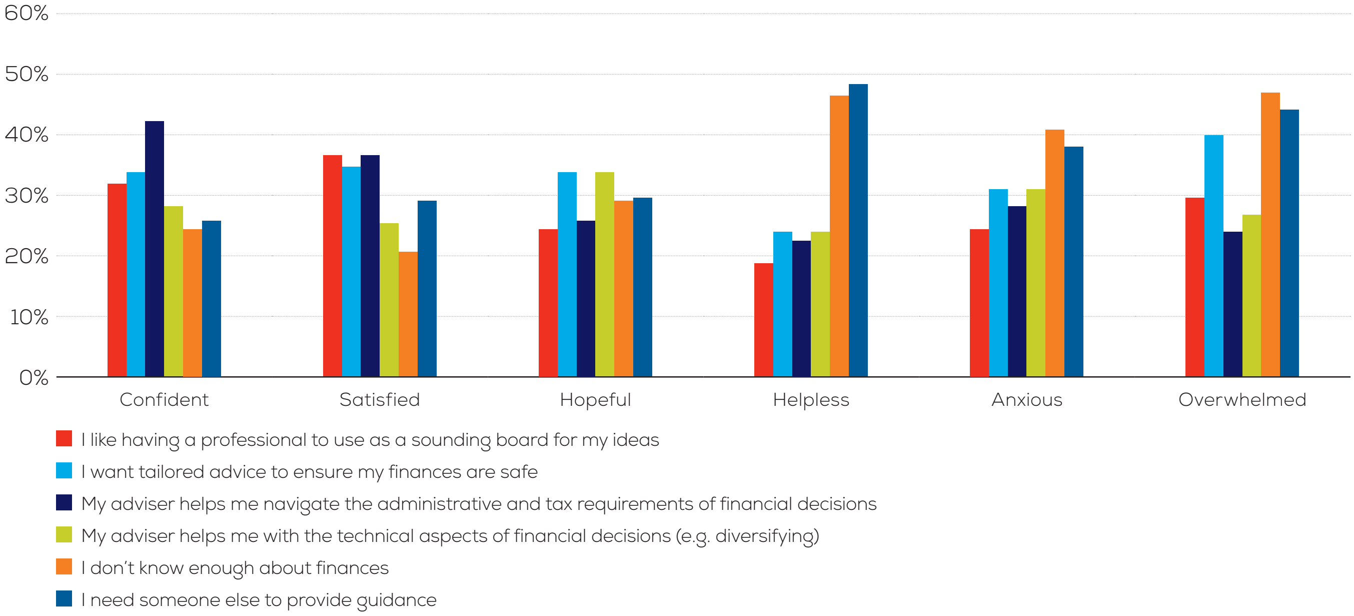
- 31% of 18-24 year olds and 46% of 25-34 year olds receive advice.
- 39% of women and 41% of men get advice.
- 45% of the most risk averse investors and 43% of the least risk averse are advised.

There can be many reasons why individuals use advice. The most common reasons include wanting help navigating the administrative and tax requirements of investments and wanting tailored advice to ensure finances are safe (both selected by 33% of advice users).

This result is similar to what was found in a study examining the client-adviser characteristics within the New Zealand financial planning environment. Half of the respondents chose their financial professional so they could have security and peace of mind. Some 44% of respondents cited that a lack of personal knowledge about financial matters was the reason they chose their financial professional.[22]

However, these reasons do depend on several factors. For instance, the reasons for seeking advice change between people with different views about their finances (seen in Chart 4.2).

Chart 4.2: Reasons for seeking advice, by feeling about their financial situation



Source: Deloitte Access Economics based on Dynata data, n=698 (multiple responses)

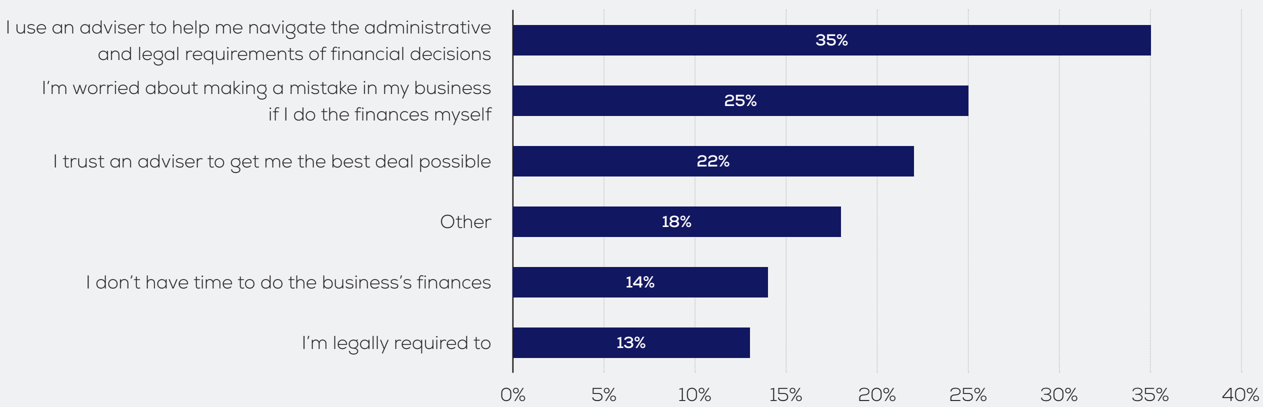
People who feel negative about their financial situation (helpless, anxious, and overwhelmed) tend to use advice because they don't know enough about finances or want someone to provide guidance. While people who feel positive (confident, satisfied, hopeful) are using professionals to help them navigate tax and administrative processes, or using them as sounding boards for ideas.

Risk attitude is another factor that influences the type of advice used. We find that risk-averse people are far more likely to use advice to ensure their finances are kept safe, whereas less risk averse people use advisers for compliance.

Small business: why use advice?

The reasons for using professional advice are different for small businesses compared to individuals. Small business owners use advice because they are concerned about making mistakes – they want help with administrative requirements, and don't want the business to suffer if they make a mistake. They clearly see the value in the advice they do use as only 13% of small business owners say they use advice because they are legally required to.

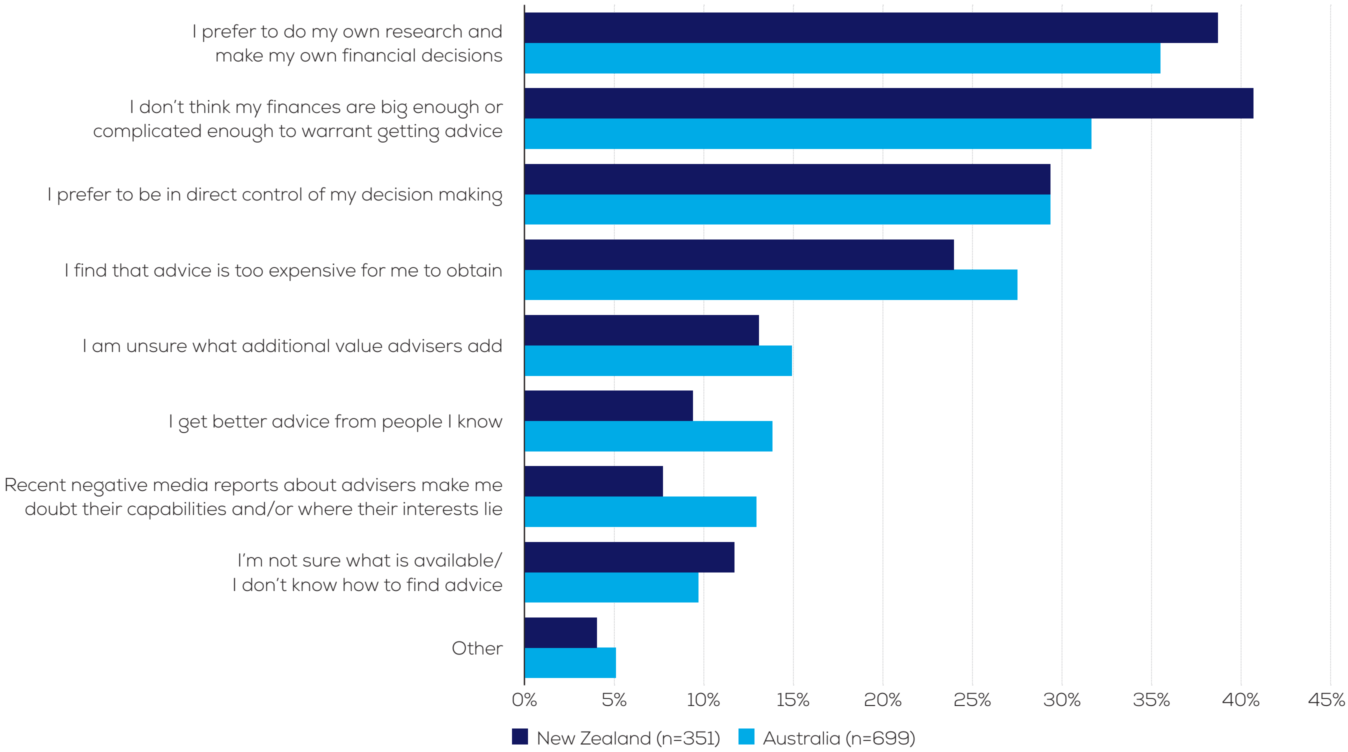
Chart 4.3: Reasons for seeking advice professional advice for small businesses



Source: Deloitte Access Economics based on Dynata data, n=310 (multiple responses)

So why are most people choosing not to use advice? We find the single largest deterrent (37% on average) is a perception that using advice means giving up control and people want to make their own decisions. This deterrent was one of the top reasons for both Australians (35%) and New Zealanders (39%) in not seeking advice (see Chart 4.3).

Chart 4.4: Reasons for not seeking professional advice



Source: Deloitte Access Economics based on Dynata data, n=1,050 (multiple responses)

A quarter of respondents said advice was too expensive (27% of Australians and 24% of New Zealanders). Many were also unsure of the value added by advisers (15% of Australians and 13% of New Zealanders), highlighting the importance of cost factors. Negative media reports about advisers influenced the decision for 11% of respondents (13% of Australians and 8% of New Zealanders).

The New Zealand financial planning environment study also highlights that both the cost and the perceived value of financial advice affects whether individuals use financial advisers.[23]

Similarly, ASIC in their survey of what consumers really think about financial advice found this to be a reason for why individuals don't use financial advice, with 26% of respondents stating that they *like to manage their finances by themselves*.[24] Yet, advice is not about giving up control, but rather obtaining more input to inform decisions.

The second biggest barrier is people thinking that their situation is not complicated enough to warrant advice. Similarly, in the ASIC survey 29% of respondents stated that their financial circumstances are too limited.[25]

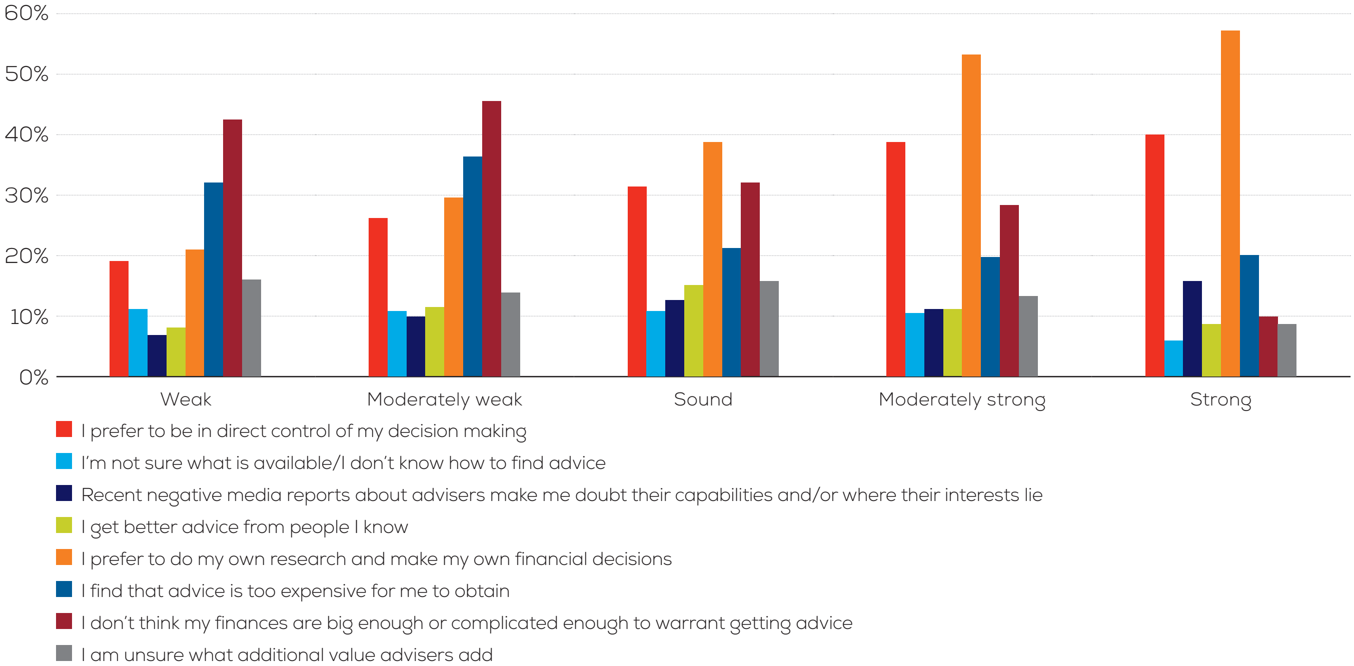
But this may be a misconception; advice doesn't have to be about solving a problem, it can also be about proactively looking for opportunities to grow investments or learning to understand an issue better.

Other factors that affect the reasons for not using advice vary by age. For young people, using advice seems unnecessary because they have simple finances, while for older people, wanting to do personal research and retain control of finances is front of mind.

A negative perception of the industry is consistently very low on the list of reasons not to use advice. This is noteworthy, given the negative coverage of the financial advice industry in the media in recent years.

Financial situation is another factor in the decision not to use advice. Chart 4.5 shows that for those with a strong financial situation, the fear of losing control is a key factor in not using advice. While less well-off people consider that their finances do not warrant using advice as they are not significant enough or complicated enough, or they worry that the advice is too expensive.

Chart 4.5: Reasons for not seeking advice, by their financial situation



Source: Deloitte Access Economics based on Dynata data, n=1,050 (multiple responses)

Another reason for not seeking advice might be due to a lack of a general level of financial awareness:

- 10% were not sure what advice is available, or how to access advice
- 14% were unsure of what value advisers add.

In 2019, the average Australian's financial consciousness[26] has fallen from 51 in 2018 to 48 (out of 100).[27] The advice industry might be able to focus more on education with this group of individuals with low levels of financial awareness as the report also finds that there is a positive relationship between financial consciousness and financial wellness.[28]

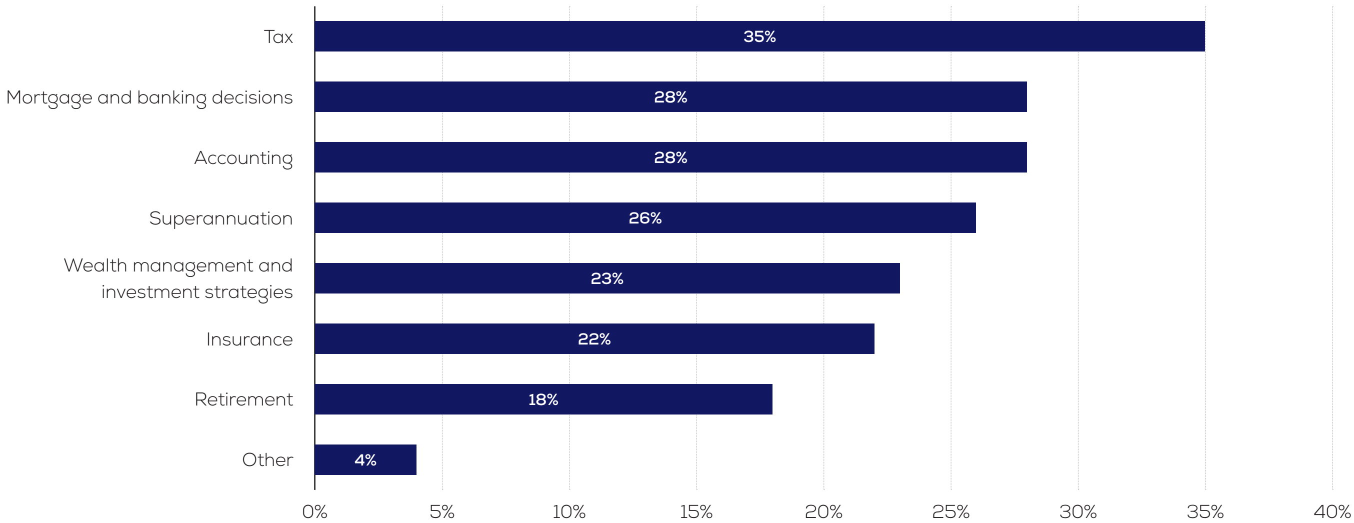
5. Types of advice

As there are many types of advice within the blanket term 'advice', this chapter explores the different types of advice used by individuals.

We find that tax advice is the most common type that people are using, with an average of 35% of users of advice in Australia and New Zealand receiving this type of advice. This is followed by mortgage and banking advice, and then accounting advice.[29]

There are some differences between the types of advice sought between countries and this is explored further later in this chapter.

Chart 5.1: Types of advice sought

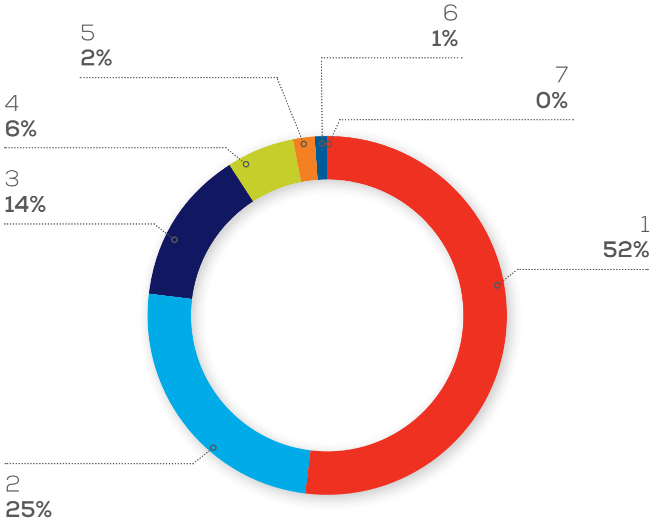


Source: Deloitte Access Economics based on Dynata data, n=698 (multiple responses)

The types of advice sought varies significantly between different groups. For instance, mortgage advice is sought far more often by younger people than older people. Almost half of 35-44 year olds who used advice are using mortgage and banking advice, compared to just 12% of 65-74 year olds, who are far more likely to be using retirement advice.

Chart 5.2 shows that more than half of respondents used only one type of advice in the past year with one in four respondents using two different types of advice. Yet there are individuals that have a wider range of advice needs, requiring advice on a range of issues. Currently advice is regulated along product lines; advisers need to have different licenses to provide different types of advice; e.g. accountants can provide tax advice but cannot advise on financial products unless they also are covered by an Australian Financial Services Licence (AFSL). This means it may be difficult to find an individual who can meet all of a customer's advice needs.

Chart 5.2: Count of the number of different types of advice used in the past year

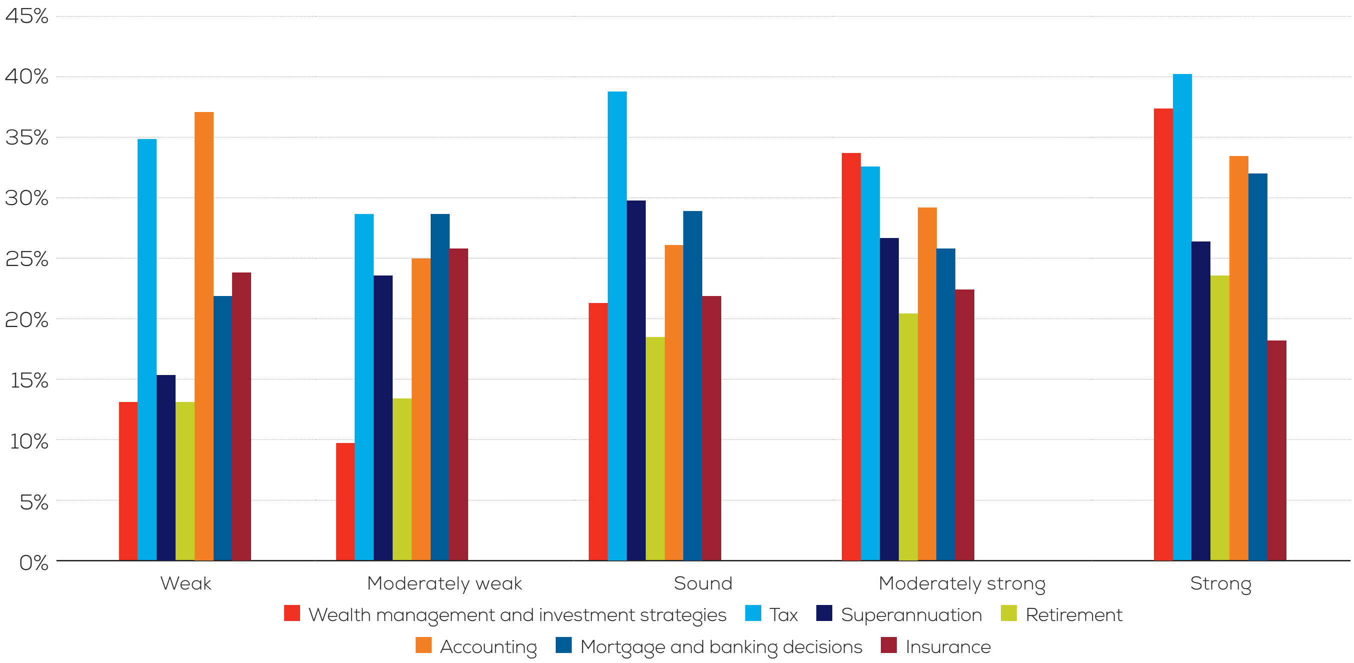


Source: Deloitte Access Economics based on Dynata data, n=698 (multiple responses)

Likewise, financial situation plays a big role in determining what types of advice people use. Chart 5.3 shows that those with a strong financial position are far more likely to be using wealth management and investment advice compared to those in a weaker position. Also, those in weaker financial positions report using more accounting advice than those in strong financial positions.

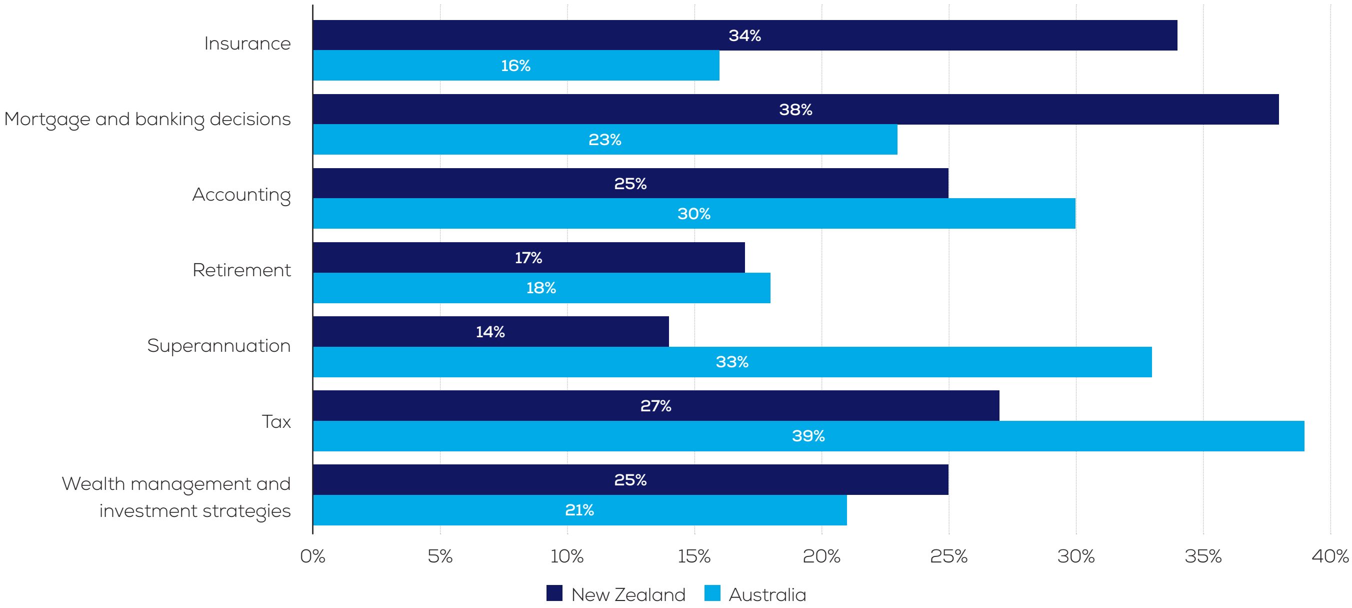
Geography is one factor that does matter in the types of advice sought. Australians are using more superannuation advice than New Zealanders. This is likely because of the differences in the retirement policy schemes between the two countries.

Chart 5.3: Type of advice, by their financial situation



Source: Deloitte Access Economics based on Dynata data, n=698 (multiple responses)

Chart 5.4: Types of advice sought, by country



Source: Deloitte Access Economics based on Dynata data, n=698 (multiple responses)

In Australia, the age pension is means-tested while it is universal in New Zealand. Another difference is that Australia has a compulsory employer-funded super scheme, while in New Zealand, it's not compulsory.[30]

Australians are also using more tax advice than New Zealanders. This might be due to tax returns not being required in New Zealand if income is taxed at source..

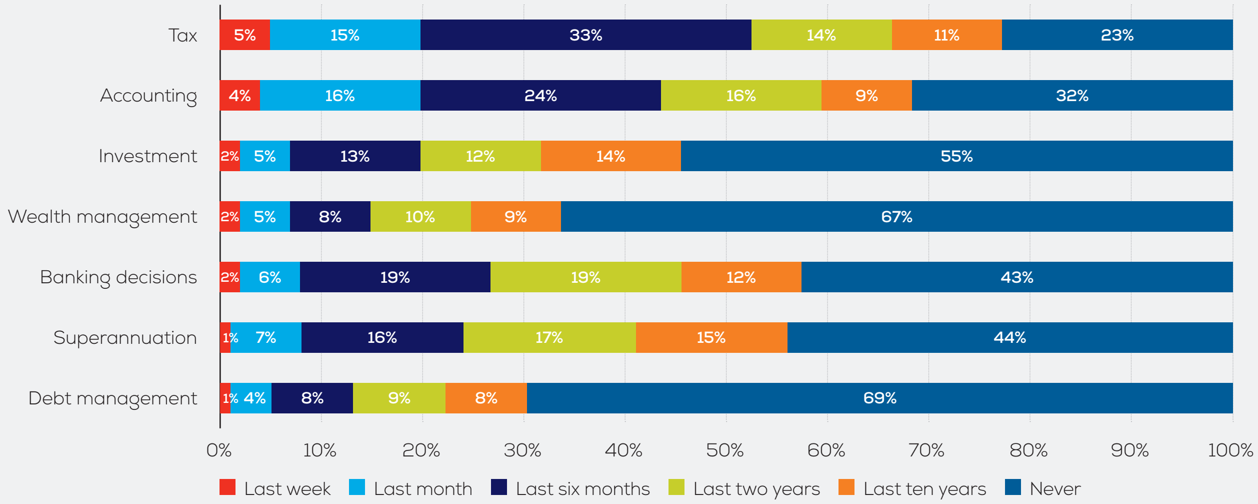
On the other hand, New Zealanders are far more likely to use advice about insurance and mortgage and banking decisions.

Gender is another factor that is linked to the types of advice sought. While the differences are subtle (a matter of a few percentage points), women seem to be more likely to use insurance and mortgage and banking advice, while men use more accounting and superannuation advice.

Small business: What types of advice are sought?

Small businesses are most likely to seek tax and accounting advice. Small businesses presumably have few financial assets and are primarily focussed on cash flow and meeting expenses.

Chart 5.5: Types of professional advice used by small businesses



Source: Deloitte Access Economics based on Dynata data, n=310 (multiple responses)

Debt management seems to be the least common type of advice sought by small businesses, with 69% of respondents never having used this type of advice.

6. Providers of advice

Where do people obtain advice? There are many different sources of advice. We group stockbrokers, financial planners, accountants, lawyers and banks together as 'formal' sources of advice, but there are also other informal options – like government websites, family and friends and social media.

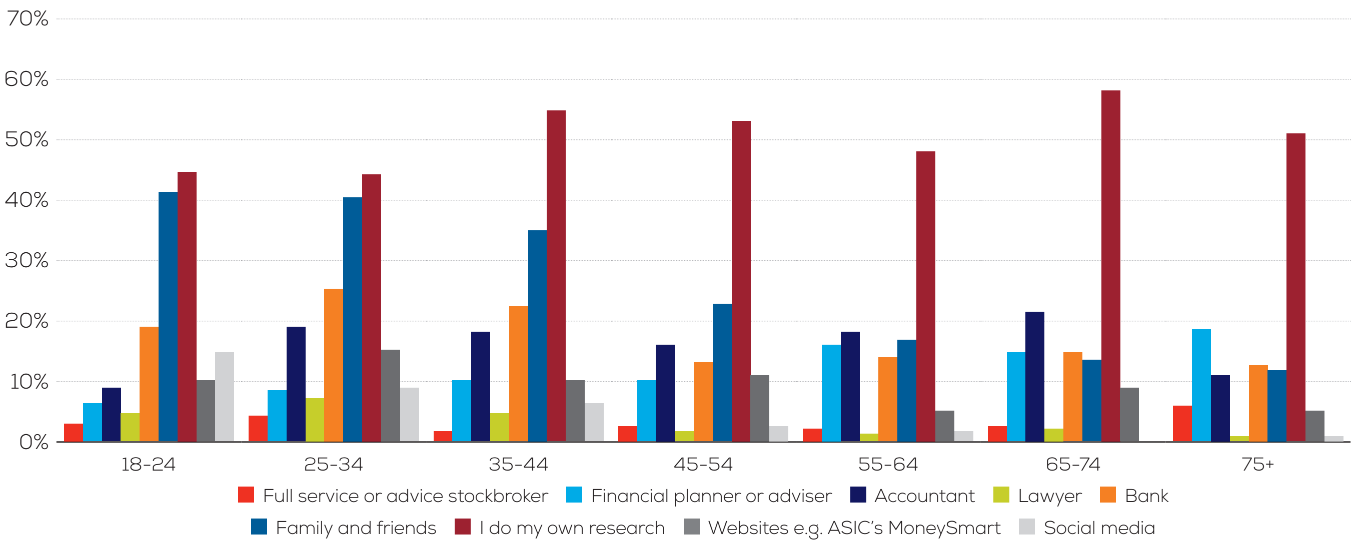
And what do advisers think about the advice business? The survey results indicate that, in the main, they have similar views to their clients on most, if not all, of the issues canvassed.

For households, doing their own research was their most common source of advice, selected by 53% of respondents.

But beyond that, sources of advice vary by age. Chart 6.1 shows that when people are young, family and friends are the second most common source of advice, nominated by 53% of 18-24 year olds, but this proportion decreases over time; by the time people are over 75, only 12% go to family and friends for input.

Banks, as providers of advice, are also more common among young people, peaking with 27% of 25-34 year olds using them. This is likely because it is the age people are more likely to be getting a mortgage.

Chart 6.1: Use of by types of providers



Source: Deloitte Access Economics based on Dynata data, n=1,748 (multiple responses), other options with fewer responses include investment apps, employer, community or religious leaders, newspapers or TV or radio, and other

Conversely, using a financial planner is something more often done by older people. Presumably, this reflects people approaching and entering retirement. For these groups, needing to plan to ensure they have adequate income in retirement would be front of mind.

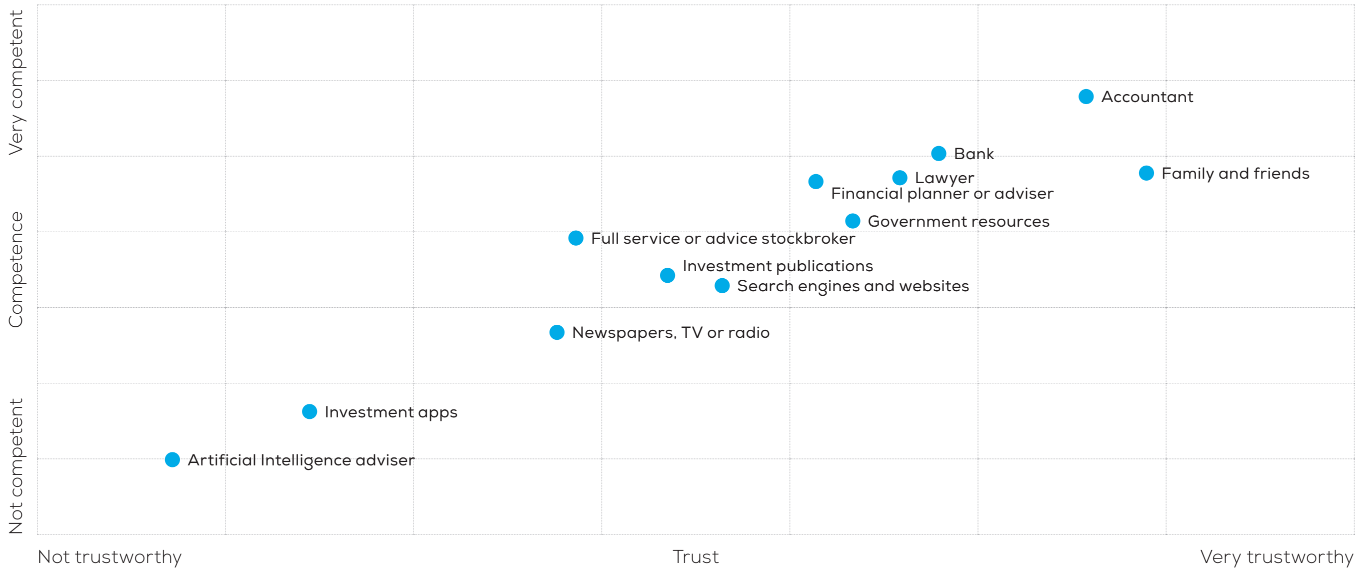
Near 10% of people are receiving advice from digital platforms. ASIC says there were 7 million unique visitors to its MoneySmart website in 2016-17. Of these, 89% reported taking positive financial action after visiting the site.[31]

Social media is also used as a source of advice. Among 18-24 year olds, where usage reaches 15%, social media is more common than websites – presumably reflecting a preference for mobile devices – but less commonly used as a source of advice than banks, family & friends and own research.

Perceptions also vary about different sources of advice. For example, ASIC in its survey of what consumers really think about financial advice found 19% of respondents stated not trusting financial advisers as a reason they did not or might not use financial advice.[32]

Chart 6.2 shows how trustworthy people think each kind of advice is, compared to how competent they find it. For the most part, the types of advice are scattered around a 45% line, indicating similar scores for competency and trust. However, while family and friends are seen as the most trustworthy source of advice, they are viewed as less competent than an accountant or a bank adviser.

Chart 6.2: Trustworthiness and competency of providers as perceived by households



Source: Deloitte Access Economics based on Dynata data, n=1,748

Accountants are seen as both the most competent source of advice, as well as being trustworthy – second only to family and friends. Banks score relatively well, both in terms of competency and trust – which is notable given the recent negative publicity banks received during the Royal Commission in Australia.

Trust in financial advisers is not as high as for professions, namely lawyers and accountants. However, having embarked on making the transition to a profession, and through the process of adopting and following professional standards and acting independently of product providers, it is likely that trust in financial planners and advisers will increase in the future.

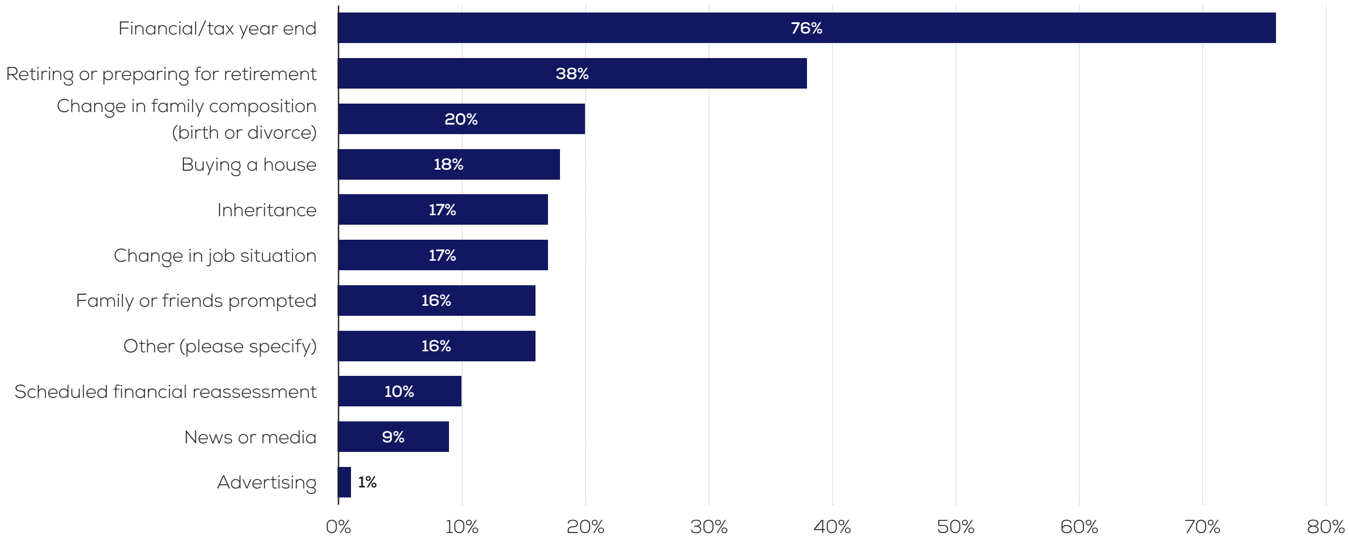
People have very low trust and low confidence in AI advice and investment apps. This is discussed further in chapter 8.

The future of advice will be underpinned by the growth of the pool of individuals who require advice. Meanwhile, the way in which advice is delivered will evolve to meet that demand. CA ANZ members were consulted to gain an understanding of the advice landscape from the advisers' perspective.

Advisers have broadly similar views to households about what prompts their clients to seek advice. Chart 6.3 shows that they believe that financial and tax year-ends are the key events that typically prompt their clients to seek out professional advice about their financial situation.

Aside from financial year ends, advisers believe that the event of retiring or preparing for retirement is the most likely event to prompt their clients to seek out professional advice about their financial situation.

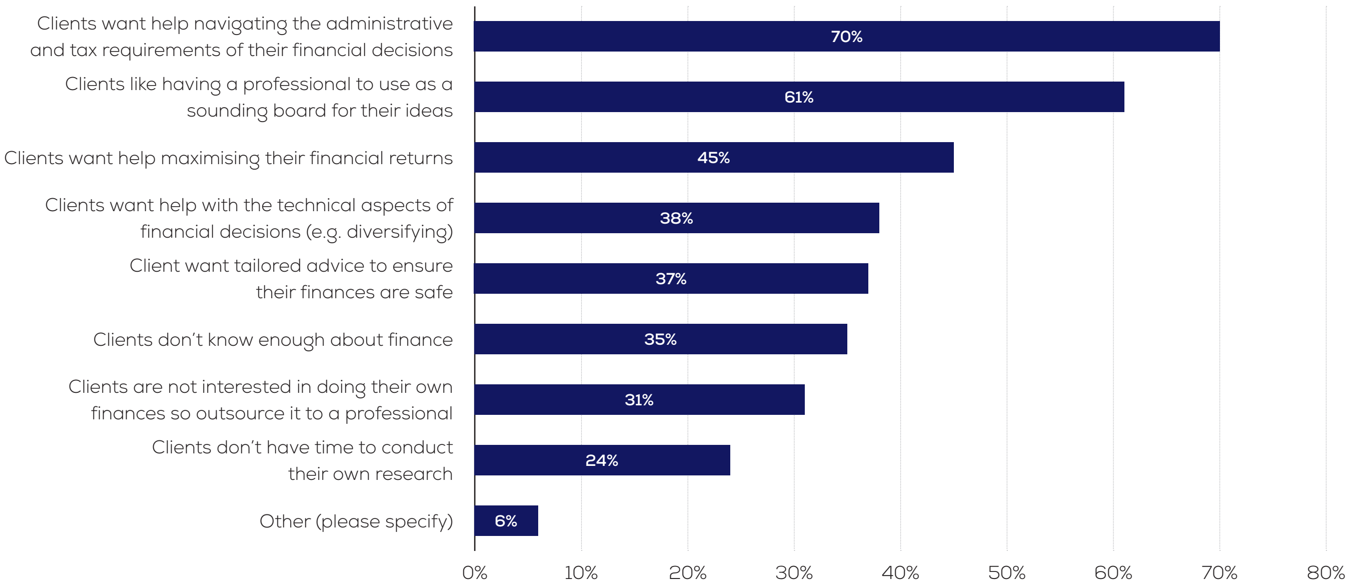
Chart 6.3: Key events that typically prompt clients to seek out professional advice about their financial situation (Advisers' perspective)



Source: Deloitte Access Economics based on CA ANZ data, n=283 (multiple responses)

70% of advisers saw their clients wanting assistance with navigating administrative and tax requirements. Advisers also saw clients seeking advice for a range of decisions relating directly to their investments – e.g. maximising returns and diversification.

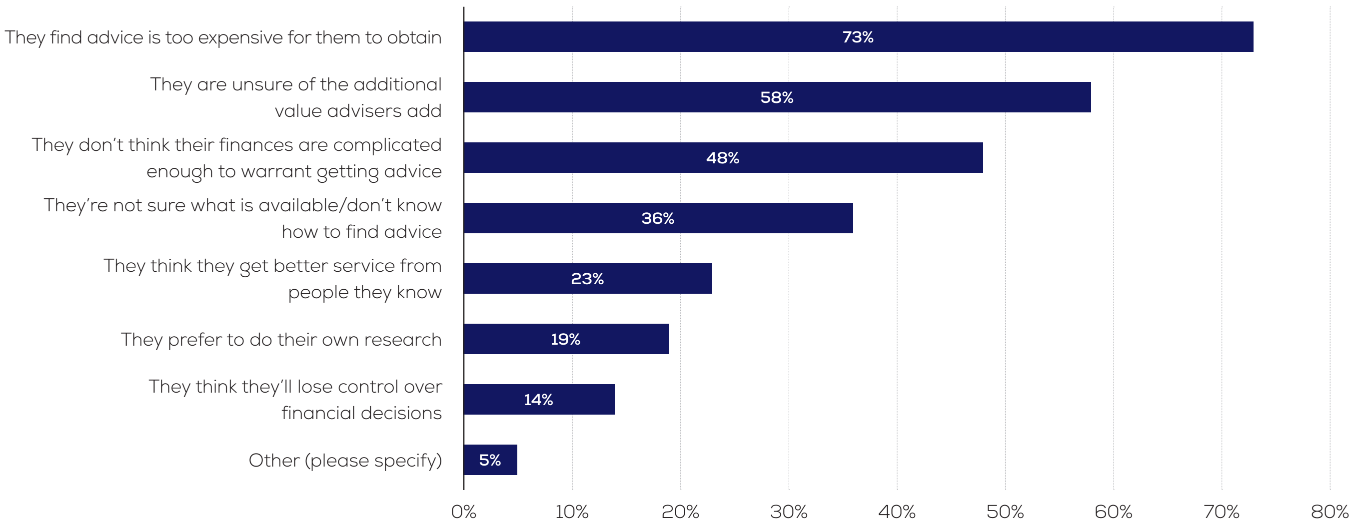
Chart 6.4: Why clients obtain professional advice (Advisers' perspective)



Source: Deloitte Access Economics based on CA ANZ data, n=283 (multiple responses)

When it comes to why people do not use financial advice, advisers and households have somewhat differing views about the barriers. Chart 6.5 shows that nearly three in four advisers (73%) believe that advice 'being too expensive' is a reason individuals don't seek advice, compared to only one in four households (26%) choosing this reason. Advisers and households also have differing views on the perceived value of advisers, with 58% of advisers stating this a barrier to individuals seeking professional advice when only 14% of households selected this reason. This likely reflects the types of services provided by CA ANZ members, compared to the broader range of services demanded by the respondents to the survey of individuals.

Chart 6.5: Why some individuals don't seek professional advice? (Adviser's perspective)

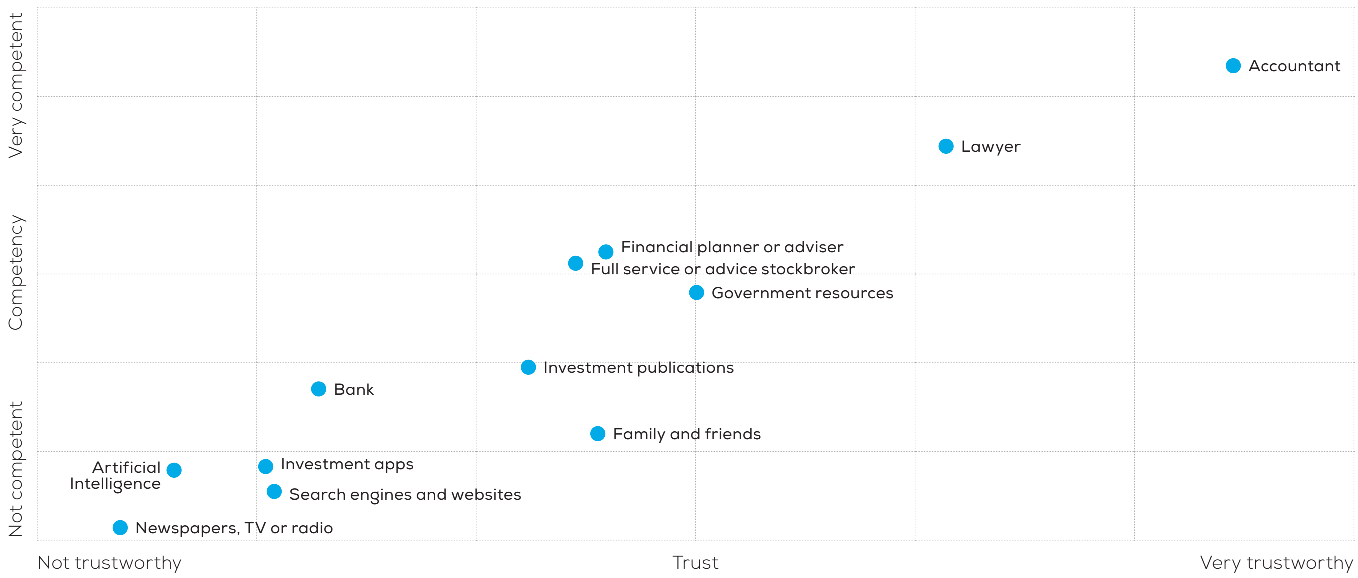


Source: Deloitte Access Economics based on Chartered Accountants Australia and New Zealand data, n=283 (multiple responses)

Individuals do not seek advice as they do not want to give up control. This suggests advisers need to do more to explain how advice is not about giving up control, but rather obtaining more input to inform decisions.

Advisers also have a different perspective to households of who they find to be trustworthy and competent.

Chart 6.6: Trustworthiness and competency of providers (Adviser's perspective)



Source: Deloitte Access Economics based on Chartered Accountants Australia and New Zealand data, n=283 (multiple responses)

Leaving aside accountants (the CA ANZ survey respondents are predominantly accountants), lawyers are ranked highest both in terms of trust and competency. Newspapers, TV or radio and AI rank the lowest in terms of trust and competency. However, advisers rank both family and friends, and banks lower on the scale of trustworthiness and competence compared to how households rank them.

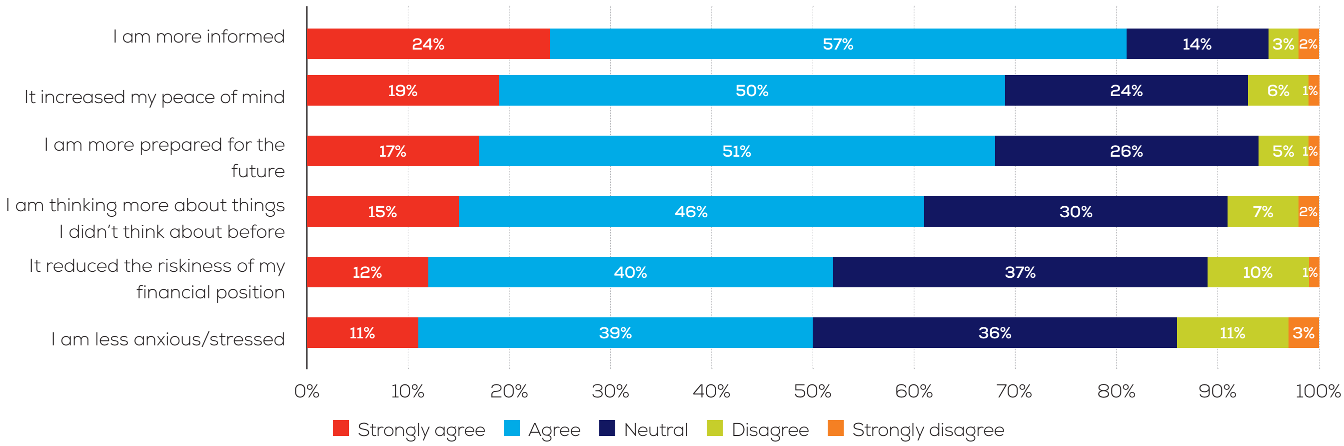
Advisers' ratings for each source of advice do not have a huge difference between the level of trust and competence, suggesting that the concepts are more interlinked in their minds given their profession. However, there is more variation in the household's ratings on the level of trust and competence for the same provider, suggesting that for consumers being competent is not enough to be also considered trustworthy.

7. Impact of advice

The impacts of using advice for individuals and small businesses range from feeling more informed through to information overload.

Overwhelmingly, people report positive effects of using advice. Chart 7.1 shows that 81% say they feel more informed, 69% have more peace of mind, and 68% feel more prepared for the future. Similarly, ASIC in their survey of what consumers really think about financial advice found that 69% of respondents stated that 'financial advisers can educate me about financial matters' as one of the reasons people use them.[33]

Chart 7.1: Impact of using professional advice



Source: Deloitte Access Economics based on Dynata data, n=698

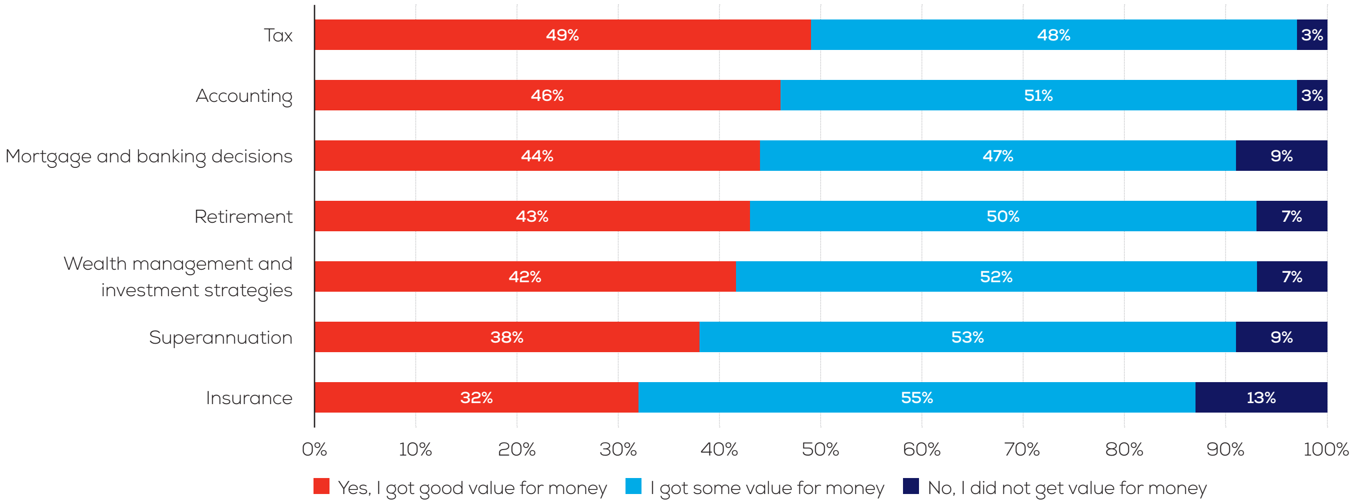
It's interesting to note, given these positive effects, that only 28% of people who say they feel 'helpless' about their financial situation use advice, compared to 46% of those who feel 'confident'. As those who feel helpless are the ones who potentially could benefit most as they will feel more informed and have better peace of mind.

However, digging into this further, 46% of people who say they feel helpless earn less than $40,000 a year, limiting the extent that advice can help their feelings about their financial situation.

Likewise, only 34% of those who are anxious about their financial situation are using advice, while 31% of people who say they feel anxious earn less than $40,000 a year. This suggests that there is a larger correlation between the level of income and feeling anxious rather than the lack of advice.

Of course, the positive effects of professional advice do cost money. But as Chart 7.2 shows, people who received advice largely believe they received value for their money. Some 97% stated they received value from their tax advice and from their accounting advice and 91% stated they received value from their mortgage advice.

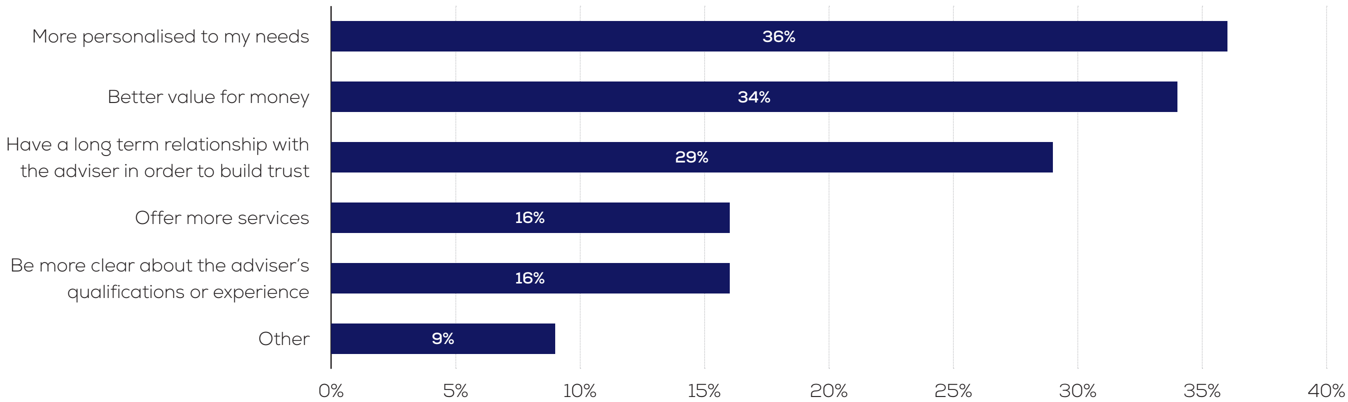
Chart 7.2: Value for money, by type of advice



Source: Deloitte Access Economics based on Dynata data, n=698 (multiple responses)

Of course, there is always room for improvement. Chart 7.3 shows that for those people who say that using advice made them feel worse off in any way, the biggest improvement they would like is advice that is more personalised, followed by better value for money and a more trusting relationship with their adviser.

Chart 7.3: Improvements to the advice experience



Source: Deloitte Access Economics based on Dynata data, n=698 (multiple responses)

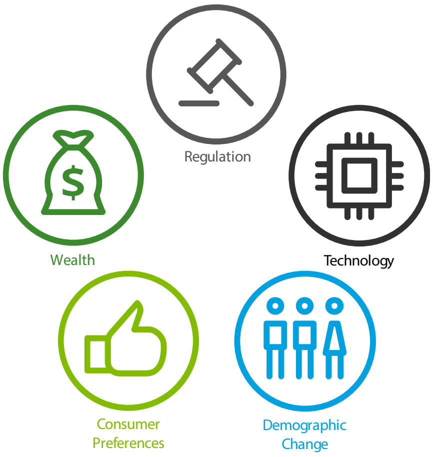
Other reports also find similar benefits of using financial advice, including:[34 35]

- increased peace of mind about the individual's financial future
- increased feelings of security of day to day finances
- feeling more in control of their finances
- putting more effort into their financial situation
- being more satisfied overall with their financial situations.

8. The future of advice

The future of advice will be shaped by some powerful forces, notably demographic change, household wealth, technology, regulation and consumer preferences and perceptions. The powerful forces shaping advice are not all flowing in the same direction.

Chart 8.1: Forces shaping the advice landscape



Source: Deloitte Access Economics

Based on demographic trends, those seeking advice will be older, on average. In 2017, there were 3.8 million Australians aged 65 and over, accounting for 15% of the population. In 2057, 8.8 million, or 22%, of Australians will be 65 or over.[36]

In New Zealand, the demographic trends are even more significant. Deloitte's in-house demographic model predicts that the population aged 65 years and older will increase by 23% from 2019, accounting for about 30% of the total population by 2050. Good advice will play an increasingly important role, especially for an aging population with increased longevity, as more of the population rely on interest income to sustainably live in their retirement in a low interest environment.

There will be more women seeking advice, through each passing generation they become more involved in household financial decision making and through living longer than men, on average.

Households will be wealthier. As a society, Australians and New Zealanders are becoming more prosperous. And a longer-lived and healthier population will have more time to accumulate assets.

Regulation of advice is evolving. There has been a clear need for consumer protections from misconduct to be more effective, especially for vulnerable groups, and regulations are being tightened. But there is a burden associated with all new regulation; in this case, reducing the flexibility of how advice can be provided and adding compliance costs that will be passed onto consumers. The changes in regulations will provide better protection for some people but may make advice inflexible, unaffordable and inaccessible for more people. For regulators, getting the balance right will require further recalibration and review.

In New Zealand, regulatory changes are focused on promoting good outcomes for consumers. This involves changes to adviser remuneration, changes in sales incentives structure along with the design of a new Code of Conduct for financial advice. Regulatory changes also aim to make it easier for people to access advice and increase the availability of advice.

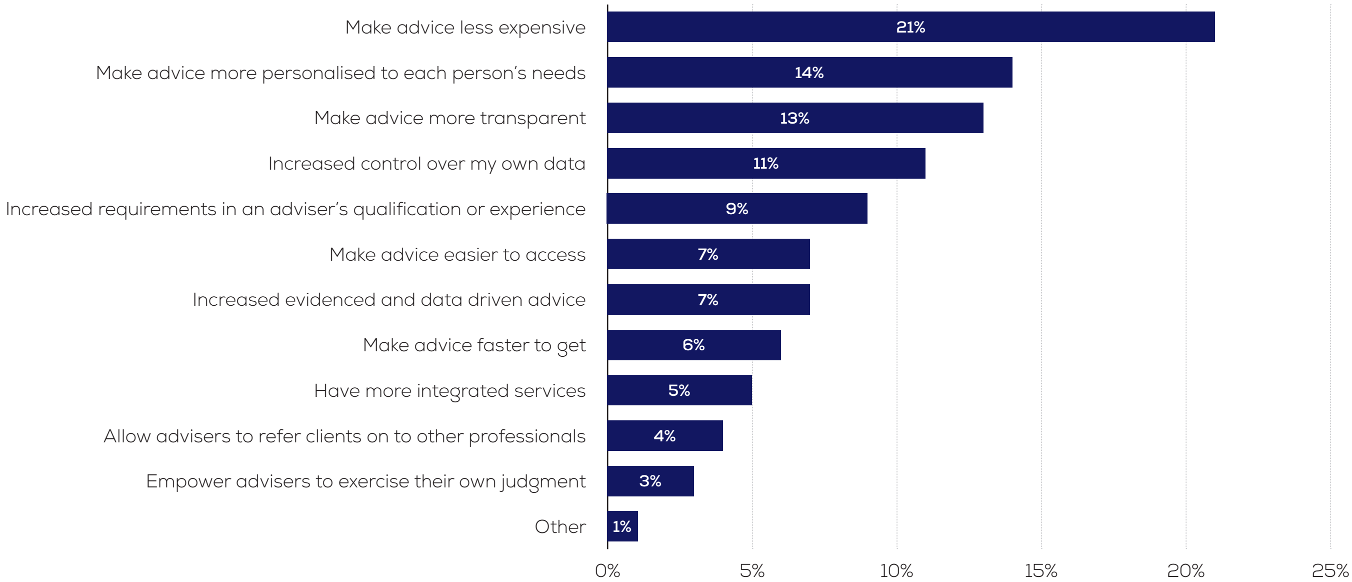
The removal of the requirement for advice in New Zealand to be given by a 'natural person' should, in theory, pave the way for robo advice. However, respondents clearly still prefer to receive their advice from a human being, so robo advice is expected to act as a complement rather than a substitute for now. This may change over time as technology adoption increases. In addition, with an increasing amount of generic advice publicly available, advisers will need to strike a balance between providing more personalised advice that people are seeking, but at a lower cost point.

Technology is likely to provide some of the solutions, by helping advisers deliver advice and comply with regulation more efficiently and effectively. But the novelty of technological progress will also send regulators back to their drawing boards, and this is discussed further below.

Consumer tastes and preferences will change. Households have clear views about how they want advice to change in the future. And the industry has a sense of what their clients want too.

When asked about the future of advice, the number one change people want is to make advice less expensive. Similarly, ASIC in their survey of what consumers really think about financial advice found that the top barrier for using financial advice is cost, with 35% of respondents stating that financial advice is too expensive.[37]

Chart 8.2: Changes to the advice industry in the future



Source: Deloitte Access Economics based on Dynata data, n=1,748 (multiple responses and weighted)

Respondents say they receive value for money today, but at the same time, they want advice to be less expensive. This indicates they would purchase more advice if costs could be brought down. One option to make advice less expensive could be to broaden the advice types for which individuals can receive deductions (as currently, it is only on tax advice), with total deductions capped in Australia.

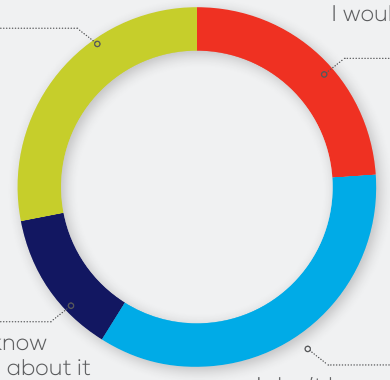
Beyond cost, people want increasingly personalised advice that is more transparent. Advice in this form is more likely to increase trust in the adviser as well as lead to good consumer outcomes. One potential way to achieve these things would be to use more technology, e.g. to mechanise repetitive tasks to reduce costs (see the box below).

Robo advice

Robo advice uses computing programs to create customised financial advice based on information about an individual's financial situation. It uses algorithms and technology in place of a human financial adviser or as a part of the financial advice process. The individual can enter personal details, such as age, gender, income, assets, financial goals and risk tolerance, into a computer program and it generates financial advice, based on the details entered. Robo-advice is usually delivered online via computer, tablet or smartphone.

The main attraction to robo advice is the potential as a lower-cost alternative to in-person professional advice, through either augmenting the professional advice process provided by humans or as a substitute for repetitive, impersonal tasks currently undertaken by human advisers.

Chart 8.3: Attitude towards using robo-advice



Source: Deloitte Access Economics based on Dynata data, n=204

Nevertheless, this technology is still fairly new, our survey finds that only 12% of people have heard of robo advice. And even after being told what it is only one-quarter state they would be comfortable using it.

Advisers see similar future challenges for the industry, namely:

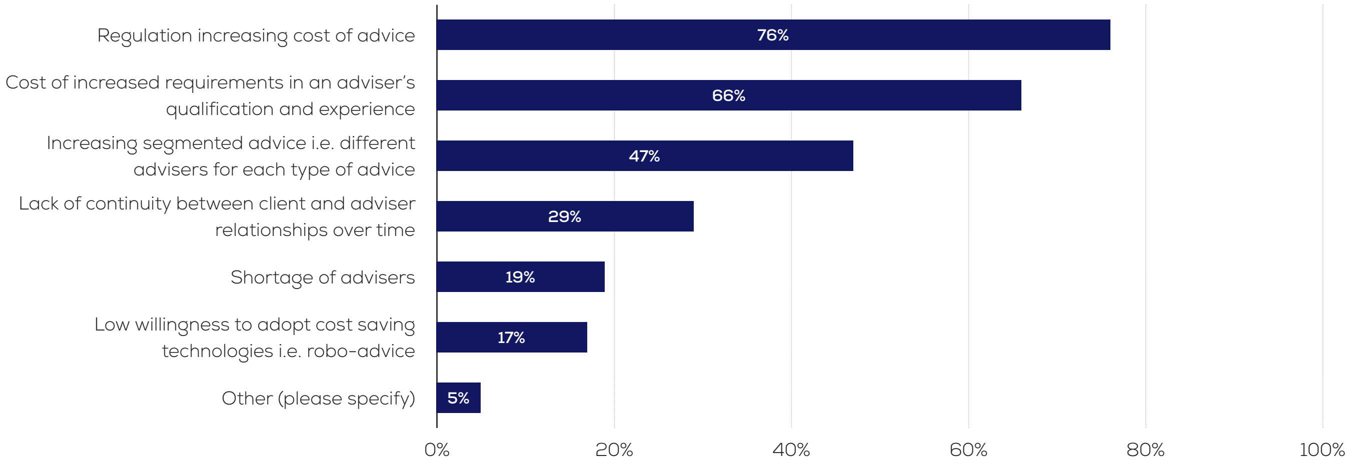
- making advice more affordable (59%)
- making advice more transparent (55%)
- providing advice that is more personalised (54%).

Advisers also see a role for robo-advice, with 72% agreeing that it could be useful to augment person-to-person financial advice. A blended model is likely to involve advisers helping clients to set their financial goals, overcome gaps in their financial literacy and address their behavioural biases, while a robo-adviser's role is to help the consumer manage their portfolio, e.g. by enabling decisions to buy and sell investments and providing information for inclusion in tax returns. Robo-advisers could deal with repetitive tasks while human advisers would be on call to assist with irregular, or more complicated tasks.

While technology can be used to reduce costs, currently robo-advisers are used to complement the human adviser rather than substituting for the human adviser. A key question is whether robo-advisers can deliver the same services to the same standard required by human advisers. Recently, one Australian robo-advice provider closed after ASIC raised concerns about the quality of the advice provided to consumers. The Australian Financial Review (AFR) reported that *"the founders believed the application of the best interests duty, introduced under the Future of Financial Advice reforms in 2012, to non-human, automated advice tools is 'unworkable'" suggesting that the current level of technology (under current regulatory frameworks) will complement, rather than replace, the work of humans in the advice industry.*[38]

When asked about what are the key challenges in making advice more affordable and personalised in the future, Chart 8.4 shows that advisers note that increasing regulation (76%), increased requirements for adviser's qualification and experience (66%) and segmentation of the market (47%) are the key challenges to be overcome. This suggests that there is an important role for the government (from a regulatory and requirements perspective) to affect the cost of advice within the industry.

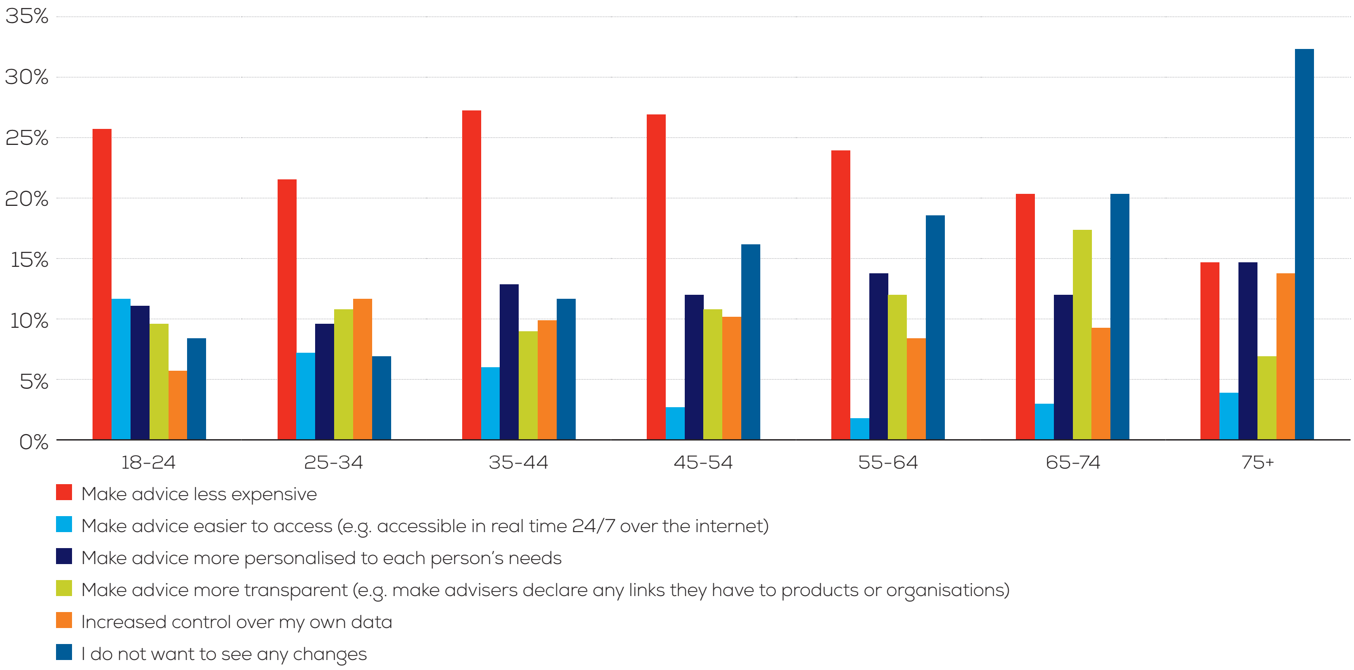
Chart 8.4: What are the key challenges to making advice affordable and personalised? (Adviser's perspective)



Source: Deloitte Access Economics based on Chartered Accountants Australia and New Zealand data, n=283 (multiple responses)

What people prioritise as changes they want to see in the advice industry varies across different age groups. Evident in Chart 8.5, a higher proportion of older individuals don't want to see any changes to the advice industry. This might be due to various reasons, such as resistance to change with older individuals or an increased understanding of their finances through gaining experience over time.

Chart 8.5: Changes in the advice industry, by age



Source: Deloitte Access Economics based on Dynata data, n=1,748 (multiple responses and weighted)

Accessibility of advice in real-time over the internet is more highly valued for younger individuals compared to older individuals. There is also an interesting trade-off between the transparency of advice and the industry and control over their own data. More of those aged 18-24 and aged 55-74 value transparency compared to control over their own data, while in comparison, those aged 75+ greatly value control over their data compared to transparency. The issue of transparency and control over data is further discussed in the box below.

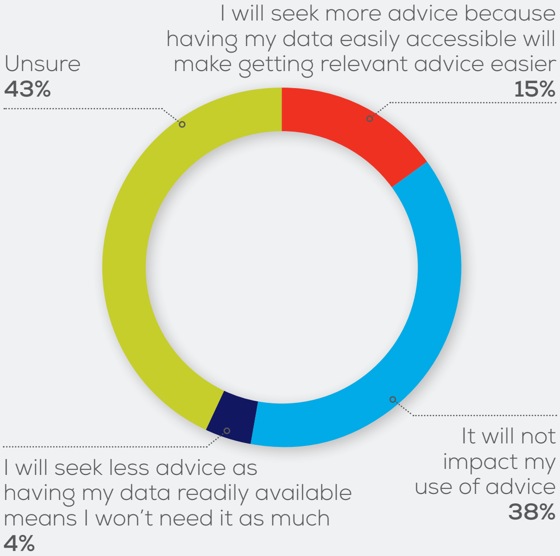
Consumer Data Rights

Like robo advice, The Treasury Laws Amendment (Consumer Data Right) Bill 2019 (Cth) (Act) is a recent development in the world of advice in Australia.

The Act empowers consumers to decide how much of their personal data they would like to share with companies, and how that data can be used. At the moment the Act applies to the banking sector, but it will also be rolled out in other industries such as insurance, superannuation and telecommunications.

The CDR is intended to increase competition and provide consumers with more choice, better and more convenient products and services, and better prices. For example, consumers switching banks can give permission for their old bank to provide personal data to their new bank. This should make it easier to compare financial products, and access cheaper deals and better services.

Chart 8.6: How the open data legislation will change the use of advice in the future



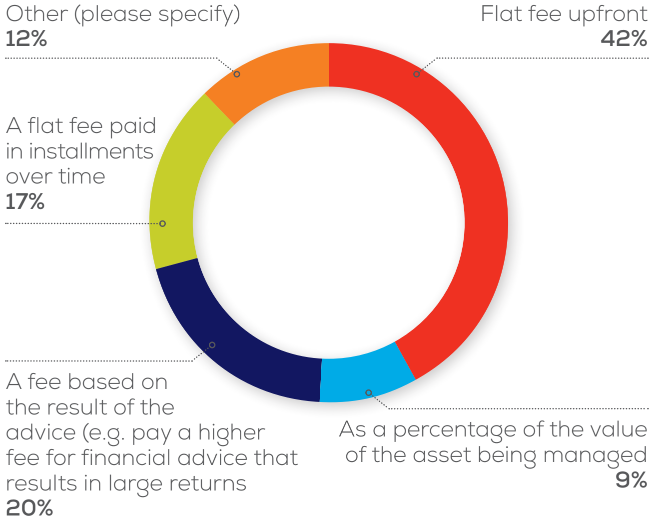
Source: Deloitte Access Economics based on Dynata data, n=1,748

Overall, people do not expect that the CDR will impact their use of advice substantially or are unsure of the impact of the CDR. Of the two actions (either seeking more advice or seeking less advice), more individuals believe that the CDR will enable them to seek more advice (15%).

As the CDR is very new, it will be some time before the actual impact on consumers and the advice industry will be able to be observed.

While individuals hope that advice will be cheaper in the future, they also have preferences about the method of payment for advice. Regarding the method of payment for advice in the future, Chart 8.7 shows that many people say they want to pay for advice with a flat fee upfront (42%), or a fee based on the effectiveness of the advice (20%).

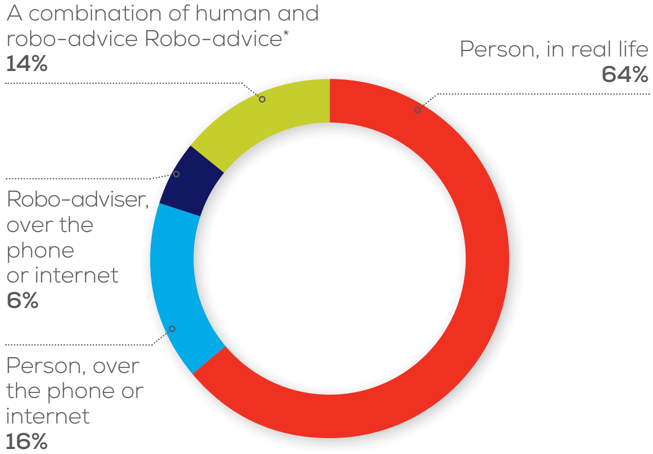
Chart 8.7: Preferred method to pay for advice in the future



Source: Deloitte Access Economics based on Dynata data, n=1,748 (multiple responses and weighted)

As Chart 8.8 shows, advisers are here to stay – a significant majority want to continue to use advice from people. While technology may be able to assist with improving the quality and reducing the price of advice, consumers do not want robo advisers to completely take over.

Chart 8.8: Preferred format to receive advice in the future



*financial advice delivered online via computer, tablet or smartphone. It uses algorithms and technology in place of a human financial adviser. You enter personal details, such as age, gender, income...

Source: Deloitte Access Economics based on Dynata data, n=1,671

This is consistent with results found in Deloitte Access Economics' *The path to prosperity: Why the future of work is human report,* which finds that technology can be used advantageously to create more meaningful work. For example, employees are increasingly demanding skills of the head and heart (non-automatable work) such as customer service and innovative thinking.[39]

Conclusion

We don't have a crystal ball but based on the evidence in this paper an image of what the future of advice could look like is starting to emerge.

Trends in demography and wealth point to a large and growing demand for advice in the future. Consumer tastes and perceptions will shape how this quantum of advice is delivered.

The average person seeking advice will be older and wealthier, and there will be more women. They will demand high levels of transparency, so they can be comfortable in the degree of control they have over their financial situation and be assured they are receiving value for money. They will be more financially literate, but perhaps not a lot more.

The advised will look for convenience but remain wary of brand-new technology. They will want advice from people, preferably face to face. Greater consumer protections and increased professionalism of advisers will increase their demand for advice.

However, the regulation that is helping parts of the advice industry rebuild their reputations through higher professional qualifications and skill levels will make advice more expensive and disjointed. In the future, the changes in regulations will provide better protection for some people but may make advice unaffordable and inaccessible for more people. Inflexibility with regulations may make it more difficult to receive continuity of advice over differing life stages. Policy makers will need to work with industry and technology providers to resolve this tension.

Instead of considering AI and robo advisers as substitutes for human advisers, they are likely to be a key factor in limiting increases in the cost of advice while adapting to regulatory changes and changing consumer expectations. Developments in AI and robo advisers will allow advisers to automate workflows making them more consistent and efficient.[40]

This suggests that technology (including robo advice) has a future in the industry in order to help practitioners provide personalised advice while helping control costs. However, consumers will still prefer that the practitioner is front and centre in delivering the advice.

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