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An Analysis of Whether Privately Owned Financial Planning Practices Are Transitioning to Fully Independent Advice Providers

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Abstract: In Australia, there are over 20,000 financial advisers, with only 1% registered as independent financial advisers. This study investigates why there has been no significant transition to independent advising. The importance of the study is underlined by the substantial losses suffered by thousands of consumers from advice that has been found to be influenced by conflicts of interest. Using a qualitative technique, the study undertook exploratory semi-structured interviews among financial advisers. The study found that over 90% of privately owned advisers will not be transitioning to independent advising due to the belief that clients will not pay fees for insurance advice. The study finds strong evidence that the affordability of paying fees for insurance advice arguably outweighs the conflicts of interest associated with non-independent insurance advice.

Keywords: conflict of interest; independent financial adviser; financial advice; financial planning

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1. Introduction

Over the last decade, as Australian consumers have increased their appetite for financial advice, the number of financial advisers has grown from 18,000 to 21,146 (Adviser Ratings 2020). However, there have been many financial scandals that have caused a significant loss for many consumers who received financial advice. From 2004 to 2014, over AUD 900,000,000 has been paid back to clients by financial planning firms that created financial losses for over 20,000 clients (Steen et al. 2016). Additionally, since 2014 the big four banks have been involved in many financial scandals, including the fee for no service scandal, which has resulted in the four banks, AMP and Macquarie bank having to compensate clients AUD 607.85 million and another AUD 141.87 million for non-compliant advice (Goh 2020). The Steen et al. (2016) study found several factors commonly associated with the advice provided to the clients who have suffered loss, including inappropriate remuneration structures causing the sale of unsuitable products and inadequate compliance systems and processes.

According to North (2015), in order for Australian consumers to receive quality, non-conflicted advice, there needs to be a growing pool of independent advisers. However, in Australia, there are only 130 registered independent financial advisers (Power 2019). With the provision of independent advice being at the heart of the Future of Financial Advice (FOFA) reforms (North 2015), and with the significant financial losses suffered by consumers associated with conflicted advice (Steen et al. 2016), this study addresses the issue of why so few financial advisers are independent (less than 1% of total financial advisors in Australia are independent, as shown in the literature review in Section 2 of this study). The literature review also reveals that there have been no Australian studies regarding whether advisers are transitioning to independence, and the main reasons for transitioning or not transitioning, which is the gap researched by this study. To address this research gap, several important questions were analysed in the study. Firstly, are privately owned non-independent advisers transitioning to independence? Secondly, what are the

main reasons for the transition or non-transition to independent advising? Lastly, what are the advantages and disadvantages of independent and non-independent advice to both consumers and financial advisers?

To address the research questions, the study uses a theoretical framework based on whether conflicts of interest should be eliminated or managed in the provision of financial advice. The framework incorporates agency theory and legitimacy theories (McInnes and Ahmed 2016a) in the three research questions, as a majority of the participant advisers are licensed by third parties, which affects their ability to transition to independence and avoid conflicts of interest. Third-party licensees are often commercially orientated towards product manufacture. The combination of product manufacture and providing advice has caused significant financial losses for investors and threatens independence, due to the conflicts of interest (North 2015). However, there have been many changes made to the financial services laws in recent years, which have been driven by the need to reduce conflicts of interest in the industry (Hayne 2019). Addressing the three research questions helps to fill the gap in the limited academic literature regarding the barriers to transitioning to independence, the reasons for the independent financial adviser sector remaining significantly smaller than all the other financial adviser sectors, and whether consumers need a growing independent advice sector.

This study regularly refers to the different types of licensed financial advisers in Australia. To provide clarity, we hereby provide definitions and characteristics for the different types of financial advisers in the Australian financial planning industry. There are three categories of financial advisers: institutionally aligned advisers; privately owned advisers who are not independent advice providers; and privately owned advisers who are independent advice providers. Firstly, an institutionally aligned adviser is someone who either is an employee of, or is licensed to, a financial product providing business, its subsidiaries or associated businesses. An institutionally aligned adviser cannot call themselves independent as they do not meet the legal requirements as defined in the Corporations Act 2001-SECT 923A. A privately owned non-independent adviser is not affiliated or owned by a wealth management institution; however, they can receive commissions or other conflicted remuneration, which prohibits them from calling themselves independent (McInnes and Ahmed 2016a). A privately owned independent adviser can only charge fees for their services and cannot receive any form of conflicted remuneration. An independent adviser must also not be licensed with an AFSL holder who receives any form of conflicted remuneration.

To be able to provide advice, financial advisers must hold an approved degree or, if they were licensed prior to the 1st of January 2019, obtain an approved degree by the 1st of January 2026. All advisers must either hold an AFSL or be a representative of an AFSL to be able to provide advice. Additionally, all advisers must comply with the Professional Standards for Financial Adviser requirements, which require advisers to participate in 40 h of continuing professional development each year, and pass an exam that tests the practical application of knowledge in key competency areas.

In Australia, 27% of Australians received financial advice in the past and 41% intend to obtain financial advice in the future. The main areas of advice for consumers are investment, retirement income planning, growing superannuation, cash flow management and aged care planning. Consumers found that there was value in obtaining advice, as financial advisers were perceived to provide expertise in financial matters that the consumers were unfamiliar with. In addition, financial advisers are able to recommend products that consumers are unable to locate (ASIC 2019).

The study's research methodology and design (refer to Section 3) involved the recruitment of fifty-one privately owned financial planning practice owners who were personally interviewed in their place of work or via telephone. The interview questions were predominately semi-structured, which provides a deeper understanding of why the participant advisers have chosen to be independent or non-independent.

The study found that over 90% of privately owned advisers will not be transitioning to independent advising. The main reason for this is the difficulty for advisers to transition from receiving commissions for insurance advice to having to charge clients fees for the advice. The study found strong evidence that the affordability of paying fees for insurance advice arguably outweighs the conflicts of interest associated with non-independent insurance advice.

The structure of the remainder of this paper is as follows. Section 2 is a literature review of studies that examine the effects of conflicts of interest in the financial planning sector throughout the world and in Australia. The literature review additionally examines the legitimacy of the current Australian Financial Service Licensee (AFSL) model in Australia. Section 3 covers the methodology and research design of the study. The results of the study are presented in Section 4, followed by a discussion of the results in Section 5. Finally, Section 6 provides conclusions and recommendations.

2. Literature Review

The literature review begins with Section 2.1, which explores the arguments about why the independent advice sector has failed to have any prominence in the financial advice sector, and reviews the factors that have affected the transition to independent advice. Section 2.2 reviews the consumer outcomes associated with conflicted advice, and addresses the disadvantages of non-independent advice. Lastly, Section 2.3 examines the legitimacy of the governance model and how that affects the ability of advisers to transition to independent advising.

2.1. The Independent Financial Advice Sector

In Australia, there are only 130 registered independent advisers (less than 1%) out of the estimated 21,146 advisers (Power 2019). The obvious question is why the number is so low, which is where the literature review begins. One reason for this provided by McInnes and Ahmed (2016a) is that advisers and licensees find it difficult to rebate commissions back to clients as it is inefficient and very difficult to implement. Additionally, financial advice may initially be more costly for clients as independent advice involves the payment of upfront fees (Cull 2015). A 2019 MetLife report (as cited in Insurance News 2019) found that more than 40% of clients receiving advice believe life insurance bought through a financial adviser is more expensive. Clients who are only willing to pay an upfront fee instead of commissions are only prepared to pay an average of AUD 1700, which is considerably lower than the average cost to deliver quality insurance advice. However, a research study undertaken by CPA Australia (as cited in Cull 2015) found that more than two-thirds of consumers believe that improving the trustworthiness of advisers and creating greater consumer protection by abolishing commissions is more important than cost minimisation. The findings suggest consumers see greater value in consumer protection than an upfront payment structure.

Additionally, Australian investors are showing an appetite for new financial technologies (fintech). The topic of fintech has received much recent attention in the literature from a number of angles, such as the value of fintech innovations for innovators (Kabulova and Stankevičienė 2020), the impact of innovation on economic growth and bank performance (Fagiolo et al. 2020; Zhao et al. 2022), crowdfunding (Martínez-Gómez et al. 2020), robotic process automation (Sobczak 2021) and fintech use among younger generations (Dospinescu et al. 2021). From a financial advice perspective, robo-advice is the most rapidly expanding technology, providing investors with access to low-cost portfolio management with user-friendly and automated services (Kaya 2017; Waliszewski and Warchlewska 2020). Robo-advice has become mainstream in the US; according to the World Bank (Abraham et al. 2019), robo-advice was worth over USD 400 billion in 2018 and is expected to grow to USD 1.5 trillion by 2023. The robo-advice technology can create multiple portfolios for a range of clients that are personalised to meet their needs and goals, saving significant time in the advisory process (Jung et al. 2018; Lourenço et al. 2020; Woodyard and Grable 2018).

As a result, investors who are technologically focused (in particular younger investors) and time-poor are taking up robo-advice for portfolio and asset management (Woodyard and Grable 2018). Additionally, robo-advisory users generally have lower income and lower net worth, and are less impulsive financially (Fulk et al. 2018). Accordingly, the next five years should see intense competition in the industry as fintech in Australia gains momentum and investors choose digital solutions instead of the traditional advice method (Yeoh 2019). According to Jung et al. (2018), as fintech becomes mainstream, banks and other product manufacturers may gain an improved market position.

A further reason that advisers may not have sufficient need to transfer to full independence is the lack of disclosure that advisers are required to provide to consumers in regards to the type of service they provide. Although all authorised advisers are registered on the Australian Securities and Investment Commission (ASIC) Financial Advisers Register, the registration does not disclose whether the adviser is independent. Furthermore, notwithstanding the legislated definition of s923A, it is unclear whether an adviser is independent (McInnes and Ahmed 2016b). A Roy Morgan study by Morris (2013) found evidence of licensees who are aligned with institutions that do not display or use the institutional brand, further confusing clients regarding the origins of the advice provider. The results from the McInnes and Ahmed (2016b) study indicate that advisers also misunderstand the definition and requirements of s923A of the Corporations Act 2001. They find that advisers have been marketing themselves as "independent" while not meeting the requirements of the Act. To rectify the misleading of consumers regarding the independence of advisers, McInnes and Ahmed (2016a) recommend that the terms independent, aligned and non-aligned be reviewed. In particular, they recommend legislation or the provision by ASIC of clear guidance regarding the difference between independent and not independent. The recommendation appears to be based on recent regulatory changes in the US and UK, where policymakers have introduced legal provisions that separate independent and non-independent advice (Bateman and Kingston 2014; Burke and Hung 2015).

2.2. Conflicted Advice and Consumer Outcomes

This section explores the academic literature regarding the effectiveness of financial advice that is not fully independent. There have been many studies conducted throughout the world that find inconsistency in the effectiveness of advice that is subject to conflicts of interest. A study by Foerster et al. (2017) of investors in Canada found underperformance in client returns to be associated with commission-based advisers chasing returns. In Switzerland, Hoechle et al. (2018) found that bank clients were being advised to invest in the bank's products that are the most lucrative for the bank. Furthermore, advised clients received an investment return below that of independent clients. Investors in Germany who have advised accounts have, on average, lower returns than self-managed accounts; however, portfolio performance was found to be higher for clients who receive advice from an independent adviser compared to a bank adviser (Hackethal et al. 2012). A study in the US by Stoughton et al. (2011) found that higher management fees can be charged by product providers where kickbacks to advisers are available, resulting in clients having lower investment returns. Lastly, a study undertaken in Australia by Cull (2015) found that independent financial advisers regularly provide advice that is considered more effective and more appropriate than that of any other advice provider or organisation.

2.3. Legitimacy

To be able to transition to fully independent advising, financial advisers are required to be licensed through an AFSL that complies with s923A of the Corporations Act 2001. In Australia, the majority of financial advisers are licensed with financial product issuers that do not comply with section s923A (ASIC 2012; North 2015; Sandlant 2011). According to Gor (2005), and McInnes and Ahmed (2017), licensing advisers via a third party creates a dual agency role that compromises the licensee–adviser relationship as defined in the Corporation Act of (2001). In addition, the adviser–client relationship is also compromised

(Cornes and Galloway 2013; Taylor and Juchau 2017). This compromised relationship is consistent with agency theory, where advisers who cannot provide a strong fiduciary duty are subject to providing product advice that is not in the client's best interest (Finke et al. 2009). Furthermore, licensing advisers via a third party fails to meet four objectives of the Act: providing adviser–client interest alignment; the management, control or avoidance of conflicts of interest; upholding statutory fiducial duties; and the promotion of competitive behaviour among financial advice providers (Corbett 1999; Ireland and Gray 2011; Jones 2009; McInnes 2020; McInnes and Ahmed 2017).

McInnes and Ahmed (2017) found that the failure of the existing licensee–adviser model to meet the above four objectives of the Act threatens the model's legitimacy. The authors found that by applying and extending (Suchman 1995) the legitimacy framework, there is further evidence that the current licensing model is illegitimate.

The legitimacy framework (Suchman 1995) provides strength to the argument that the model can be changed to an independent individual professional licensing model, similar to that of other professions (McInnes 2020; McInnes and Ahmed 2017; Richards and Morton 2019; Sanders and Roberts 2015). This argument is further supported by Richards and Morton (2019), who developed a model of financial advice designed on alignment and orientation. The model found that financial advice is most likely to be in a client's best interest when orientation is client-centred and alignment is independent of product distribution. Of the existing licensing models in Australia, only the rarest model, where an adviser obtains his/her own license, provides great opportunity for providing advice in a client's best interest. The individual license ensures the removal of the alignment between an adviser and product manufacturer (Richards and Morton 2019).

Although the existing academic literature provides evidence that the Australian licensee–adviser licensing model may not meet the best interests of consumers, there have been no studies undertaken in Australia regarding whether advisers are transitioning to independence, and the main reasons for transitioning or not transitioning.

The most relevant study in Australia on this topic was undertaken by McInnes and Ahmed (2017) to determine if the current licensee–adviser model should be replaced by professional individual licensing. The study found that there was support from the advisers interviewed to move to individual licensing. However, advisers expressed concerns that they will lose existing commercial benefits and be subjected to additional compliance work. The study additionally found that individual licensing will not eliminate conflicts of interest (McInnes and Ahmed 2017). The research by McInnes and Ahmed (2017) suggests that only advisers willing to transition to full independence can avoid conflicts of interest. However, the academic literature does not provide any knowledge regarding whether Australian financial advisers are transitioning to full independence, and whether there are any associated barriers preventing the transition. The effects of conflicts of interest and the legitimacy of non-independent advice models are well documented; however, the current study provides valuable knowledge regarding whether there is an appetite for financial advisers to transition to full independence.

3. Methodology

To provide a more detailed insight into the views, attitudes and motivations of privately owned financial planning practices, the study undertook a qualitative approach using an exploratory research design. This allows the researcher to uncover themes and to flexibly probe the "why" and "how" in order to draw out new insights, as opposed to just testing hypotheses (Jupp 2006; Creswell and Creswell 2018). This qualitative approach is based on the postpositivist methodology, which can incorporate the use of both qualitative and quantitative research (Guba and Lincoln 1994). This section covers the sample size and recruitment of participants, interview questions, interview procedures and data analysis.

3.1. Sample Size and Recruitment of Participants

The sample of the study comprised fifty-one privately owned financial planners' practices (forty-two non-independent and nine independent), with each state in Australia being represented based on the state population compared to the Australian population. The study's qualitative research method used non-probability sampling, which is reasonably homogenous with a small selection criterion (Morse 1995; Ritchie and Lewis 2003). Because the interviews were conducted individually, the sample size was determined based on no new evidence being created. The study group consisted of a cross-section of small (1–2 advisers), medium (3–5) and large licenses (6 and above).

3.2. Interview Questions

To carry out effective qualitative research, interviews are frequently used instruments for collecting data (Rubin and Rubin 2005) as they can provide a richer source of data that surveys and other quantitative techniques cannot provide. To conduct personal interviews with advisers, open-ended interview questions were developed to provide a deep understanding of why financial advisers are or are not transitioning to independent advising.

The interviews were predominately semi-structured in a relaxed atmosphere that encouraged the participants to engage in "stories", which enabled them to answer the questions in their style (Wahyuni 2012). Although it is essential to have a set of questions to guide the discussion to obtain a better understanding of the participants' views and attitudes, the semi-structured approach provides the participants with the comfort to share their experiences and offer a more in-depth insight (Hair et al. 2011).

3.3. Interview Procedures

All interviews were conducted individually due to the nature of the questions and carried out over the phone or in the adviser's office or a location that provided adequate privacy. All interviews were performed within two weeks of receipt of the signed consent form. The interview's duration, on average, was fifty minutes. The interviews were all digitally recorded and transcribed verbatim. In addition to the recorded conversations, notes were written during and after the meeting to ensure key categories and themes were documented. To ensure privacy, all advisers were given different identities (participant adviser 1, etc.).

3.4. Data Analysis

The research project used a qualitative data analysis method due to the exploratory nature of the project. The method involved conducting a manual content analysis of the transcribed interview data. The manual analysis involved categorising the Word formatted interview data into emerging themes. The aim of the analysis was to find the most common responses to the open-ended questions and to cross-reference the answers to determine patterns and themes. A summary of every interview question response was created, and all the data were tabulated.

4. Results

To determine whether privately owned adviser practices are transitioning to fully independent advisers as defined in the Corporations Act 2001, the fifty-one adviser participant interviews were first analysed using a manual content analysis. The analysis found five main themes, as shown in Table 1.

Table 1. Themes and sub-themes.

Themes	Sub-Themes
Transition to independence	Insurance commissions, fee for service
Revenue impact	Damaging. business closure
The public impact of non-transition to independence	No disadvantage, beneficial
Benefits of independent advice	Conflicts of interest, ethics and honesty
Independent financial performance	Strong performance, differentiation of service

4.1. Transition to Independence

To determine if privately owned financial planning practices are transitioning to full independence, the forty-two non-independent privately owned practices were first asked if they intend to provide independent advice over the next 12 months. Table 2 below shows that thirty-nine of the advisers (92.9%) said they will not be providing independent advice over the next 12 months, while two advisers said it is possible and one was considering it. Second, advisers were questioned about the main reasons they will not be providing independent advice. Thirty-six (85.7%) of the advisers said that they receive insurance commissions, which cannot be received if you are providing fully independent advice, as per the Corporation Act 2001. Additionally, twenty-one advisers commented that clients will not pay fees for insurance advice.

Table 2. Advisors transitioning to independence.

Category	Respondents
Advisers not transitioning to full independence	39 (92.9%)
Advisers who are possibly transitioning	2 (4.77%)
Advisers who are contemplating.	1 (2.33%)
Main reason for non-transition.	Loss of insurance commissions (85.7%)

As an example of the adviser participants' responses, "Participant Adviser 42", who had been in the business for thirty-two years, said: "I think at the bottom end it's a real struggle and my fear at the bottom end is that potentially we'll end up with underinsurance". "Participant adviser 17" discussed how it is not viable for clients under 35 years of age to pay fees for insurance advice when the benefit is minimal:

> No, not at all, they're not going to. There's not going to be any money in it. You know, for anyone under 35, it's just not practical. If they just want a life insurance policy, you're only going to make $600, or you know, $300. How could you charge them $1000 for a $300 benefit?

The results strongly support a lack of desire and incentive for privately owned non-independent advisers to transition to providing fully independent advice. The major reason provided was the need to maintain insurance commission, because a move away from a commission model to a fee for service model will have a significant impact on the revenue of a majority of practices due to the belief clients will not pay fees for life insurance advice. To further analyse whether a transition from the insurance commission model to a fee for service model will have a significant impact on revenue, seven independent advisers provided a response to the question "are clients willing to pay fees for life insurance advice?" The results support the views of the privately owned advisers, as only one of the seven independent advisers (14.3%) who responded said they were not finding it difficult to provide fee-based insurance advice. Furthermore, two adviser participants had completely stopped providing advice on insurance products due to the difficulty of providing fee-based advice. Additionally, one independent adviser indicated they were looking to outsource the insurance advice and another independent adviser had made the transition to independence because he advised on an insignificant amount of life insurance

and wasn't concerned about losing revenue due to no longer receiving a commission. "Participant Adviser 37" explained that has now stopped providing insurance advice because it is too hard:

> Yeah, so I think that is a significant challenge, but you know, and I agree that there certainly should be a limitation on how long commissions should be paid for. You know it's just, we're seeing crazy things. But for us, we mostly deal with, you know, professionals, so they understand that you know, particularly when we, you know commissions reduce premiums by 30% for life, there's a significant value add. You know, let us set it up for, but yeah, we've decided not to do it anymore cos it's just a pain.

Based on the results of the study, providing a fee for service for insurance advice is too difficult to implement for a majority of independent advisers, which has led to advisers no longer providing advice. The results support the survey results of Choice & Access to Life Insurance (2020), which found that only 7% of consumers are willing to pay an upfront fee over AUD 1000. The results demonstrate that there is a significant gap between the fees needed to meet the costs of providing advice to consumers, and the level of payment consumers will make (Choice & Access to Life Insurance 2020).

4.2. Revenue Impact

The previous section indicates that the main reason for the non-transition of privately owned advisers to full independence is the loss of insurance commission. This section explores the impact of the banning of life insurance commissions as proposed in the Banking Royal Commission recommendations by Hayne (2019). The forty-two non-independent privately owned advisers were questioned about whether not receiving commissions or conflicted remuneration will reduce their income. Table 3 below shows forty of the forty-two non-independent advisers (95.2%) stated that the banning of commissions will reduce their income irrespective of the ability to charge fees, as opposed to receiving commissions. The potential impact on many of the practices has been significant, with five advisers stating they will close their business, nine advisers believing a ban will cause significant damage to their business, and four participants saying that they will stop writing insurance.

Table 3. Impact of banning of insurance commissions.

Category	Respondents
Number of advisers whose income would be reduced by a banning of insurance commissions.	40 (95.2%)
Number of advisers who would suffer significant damage to their revenue.	9 (21.42%)
Number of advisers who would close their business.	5 (11.9%)
Number of advisers who would stop providing life insurance advice.	4 (9.5%)

"Participant Adviser 6" strongly stated: "It would annihilate my business". Additionally, "Participant Adviser 4" said: "I would stop advising on insurance. Because no client's going to pay". "Participant Adviser 17" confessed: "I'd have to close. There, there's no way, none of my clients would accept a fee to service after I've been, you know, I've never had to charge them".

"Participant adviser 40" was also extremely concerned about the impact of the ban of insurance commissions and said:

> If they ban commissions full stop, then I would then have to start charging fees for insurance advice; I would potentially lose. The biggest loss for me would be the ongoing revenue, so I would suggest that possibly our revenue would go down I'm thinking by 50 per cent.

The impact of a ban on life insurance commission appears to have significant financial ramifications for a majority of the practices interviewed. Additionally, the sub-themes of

"damaging" and "business closure" in the manual content analysis represent many of the adviser participants' views of the impact of a commission ban.

4.3. The Public Impact of Non-Transition to Independence

To gain a further understanding of why privately owned advisers are not transitioning to independent advice, the advisers were asked whether they believe clients are disadvantaged by the fact they aren't providing independent advice. As shown in Table 4, all of the privately owned non-independent advisers were of the view that clients are not disadvantaged by receiving advice that is not independent. In addition, eleven advisers stated that clients will benefit as they will have to pay a fee if a commission is not payable. Three advisers believed that, because the commission levels are the same for all life insurance products, there is no bias or disadvantage in receiving advice that is not independent.

Table 4. Public impact.

Category	Respondents
Number of advisers who stated clients are not disadvantaged by receiving advice that is not fully independent.	42 (100%)
Number of advisers who stated clients benefit from non-independent advice.	11 (26.2%)
Number of advisers who stated there is no bias in non-independent advice.	3 (7.14%)

"Participant Adviser 13" explained the benefits of the current commission system:

> The client is significantly advantaged by the commission payments as they get the option to consider their need for life insurance to protect themselves and their family. Without the opportunity to be paid, while I may out of obligation mention the need, but I am sure as hell not going to help them implement it.

"Participant Adviser 42" added there was not any disadvantage, by saying:

> No, but I still think at the bottom end it's challenging. I think the fact that the adviser's being paid in one sense for lower-end clients makes a lot of sense because I think when you couple what we talked about earlier of the undervaluing of the advice, and then that coupled up with people now being asked to pay something that they didn't have to pay before.

This study found that all the non-independent privately owned advisers interviewed did not believe there is any disadvantage in receiving a commission; in fact, many advisers expressed the view that clients will be disadvantaged if they are charged fees. In the event that commissions are banned, as per the recommendations of the Banking Royal Commission Hayne (2019), the results suggest adviser revenues will be significantly affected, and consumers may find life insurance advice unaffordable. However, to further analyse whether clients would be disadvantaged by receiving advice that is not fully independent, the adviser participants who are licensed by a non-independent third party were asked the question, "Is the current licensing model affecting the ability of the industry-changing to a profession? Of the twenty-nine adviser participants, fourteen said yes (48%), fourteen said no, and one was undecided. Interestingly, of the fourteen advisers who were in the affirmative, the main comment made by seven participants (50%) was that the adviser model should be changed to an individual licensing model. "Participant adviser 20" was very certain of the need to change to individual licensing, saying: "Yep, absolutely one hundred per cent. I think it should have been individual licensing or that the individual licensee subscribes to a government-approved body". "Participant adviser 32" stated: "I think that they should move advisers to self-licencing in the similar way that the accountants are, and lawyers are".

The results strengthen the argument that the model could be changed to an independent individual professional licensing model, similar to that of other professions (McInnes

and Ahmed 2017; Richards and Morton 2019; Sanders and Roberts 2015). Because approximately half of the third-party licensed advisers acknowledged the model is affecting their ability to be professional, the legitimacy of the model was further questioned, with individual licensing the most recommended model change.

4.4. Benefits of Independent Advice

To further explore the advantages and disadvantages of providing fully independent advice, all nine independent advisers were asked "why did you become an independent adviser?" The two most common responses were conflicts of interest (five responses) and ethics and honesty (three responses).

4.4.1. Conflicts of Interest

The most common reason for becoming an independent adviser (five responses), according to the nine independent advisers interviewed, is the removal of all conflicts of interest. Conflicts of interest in the financial planning industry are well documented, and according to CHOICE director Erin Turner, conflicts of interest have been the cause of the financial scandals, not poor adviser education (Pennington 2018). The Banking Royal Commission found that the Australian advice industry licensing model contributes to constant and significant losses to consumers of financial products due to the conflicts of interest (Hayne 2019). Additionally, Valentine (2013) found third-party licensing to be structurally illegitimate because conflicts of interest from association are prevalent. "Participant adviser 43" explained the transition from providing advice under a product provider license to being fully independent:

> I had already been operating under that independent advice fee model but had the overbearing presence of a product provider. So, it was for me, it was a natural progression from where I already was. Yeah, I mean its genuinely uncompromised advice. The adviser should be telling a client exactly what they think they should be doing, as opposed to beforehand. As I said, we were operating under that fee model, but at the end of the day you still had to work within your approved list, so there were always compromises.

"Participant adviser 46" discussed the importance of the client directly paying the adviser for the advice to ensure the best outcome:

> I don't know how you can give, and I don't know how you can sit in front of a client and provide advice unless you're independent. I mean I did it for a while, but when I did do that, I was working with very high net worth individuals and wasn't such a thing. I don't know, you need to sit down with somebody and know that that person is paid by you in order to do the absolute best thing by you.

As discussed in Section 4.3, all forty-two non-independent privately owned participant advisers stated that they do not believe that there is any disadvantage to clients receiving advice that is not independent. The privately owned non-independent advisers were of the view that conflicts of interest have little or no impact on the financial outcome, and the advice is in the best interests of the client. However, research by McInnes and Ahmed (2017) suggests that only advisers willing to transition to full independence can avoid conflicts of interest. Conflicts of interest arguably have had the most significant impact on consumer financial losses and have prevented the industry from becoming a full profession (Hayne 2019).

4.4.2. Ethics and Honesty

The second most common response (three responses) to the question of why adviser participants became independent advice providers is to provide ethical and honest advice. The study found that the three participants believed that only being an independent adviser can enable one to be totally ethical and honest when providing advice to clients.

"Participant adviser 41" believed that it is not a commercial decision to be honest, stating: "Yes, I feel like I am trying to be concise, to be honest, it wasn't a commercial decision. I've had so many arguments, I guess with past employers". "Participant adviser 37" explained that being an independent adviser enabled him to fulfil his ethical beliefs:

> I didn't know there was such a thing called fully independent until I stumbled across it in some communication, and my ex-wife at the time and my mother, they just thought I was crazy. I go, well I don't know, I'm just really ethical and I believe in what the Institute of Chartered Accountants said when they said not only do you do the right thing but to be seen to be doing the right thing, and that's always stuck with me.

To improve the ethical behaviour and professionalism of financial planners and advisers, the Financial Adviser Standards and Ethics Authority Ltd. (FASEA) introduced the Financial Planners and Advisers Code of Ethics 2019 through an amendment to the Corporation Act 2017. All financial planners and advisers from 1 January 2019 must comply with the 12 ethical standards (Financial Adviser Standards and Ethics Authority Ltd. 2019). Although there no research has been conducted to determine the impact of the code on the quality of financial advice, it is recognised that a code of ethics is not sufficient on its own, as developing and improving ethical behaviour through the code "needs to be promoted, implemented and enforced. Ethical rules do not make ethical people" (Brien 1998, p. 2).

5. Discussion

The small number of independent financial advisers in Australia shows a transitional failure to independent advising, which is surprising considering independent advice is at the heart of the FOFA reforms (North 2015). The results from the study strongly indicate this trend will continue, with 95.2% of participant advisers not intending to transition to independent advice. However, it is critical to understand whether there is a need for advisers to transition to independence to provide consumers with better outcomes. The study's theoretical framework is based on whether conflicts of interest should be eliminated or managed in the provision of financial advice. The literature review examined several studies conducted worldwide that found inconsistencies in the effectiveness of the advice that is subject to conflicts of interest (Foerster et al. 2017; Hackethal et al. 2012; Hoechle et al. 2018; Stoughton et al. 2011). Additionally, Australian investors have been affected by numerous financial scandals, which have raised serious concerns regarding the legitimacy of the governance model. A majority of financial advisers are licensed by financial product providers, which creates a dual agency role (McInnes and Ahmed 2017). The literature review provides strength to the argument that the governance model could be changed to an independent individual professional licensing model, similar to that of other professions. The study also found nearly half of all of the adviser participants who are licensed by a non-independent third party believed that the licensing model is preventing them from becoming a professional. An individual licensing model is the preferred solution according to 50% of the advisers who stated that the existing licensing model is preventing professionalism. However, 87% of the non-independent advisers said that the main reason for not transitioning to full independence is the need to continue to receive life insurance commissions. Although an individual licensing model may enable insurance commissions to be paid, in addition to eliminating the conflicts of interest associated with third-party licensing, the individual licence will not be independent, and will therefore be subject to potential conflicts of interest associated with commission-based insurance advice. It is therefore important to understand if the conflicts of interest related to providing commission-based life insurance advice reduce the effectiveness of the advice.

The ASIC (2014) review of retail insurance advice provides evidence of poor advice associated with high upfront life commissions; however, where the adviser is paid under another commission structure, the advice is compliant 93% of the time, compared to 7% of the advice being non-compliant. This result suggests there is a significant improvement in the quality of advice where other forms of commission models are used. Furthermore, there

is evidence that advice to consumers may be less affordable if life insurance commissions are banned. The Rice Warner (2018) Impact of Banning Commissions on Life Insurance Policies found that 55% of consumers in Australia prefer advisers to be paid by commissions when providing life insurance due to consumers' inability to afford an upfront fee (Choice & Access to Life Insurance 2020). In addition, the survey results found that only 7% of consumers are willing to pay an upfront fee over $1000. The results demonstrate that there is a substantial gap between the fees needed to meet the costs of providing advice to consumers, and the level of fees consumers are prepared to pay (Choice & Access to Life Insurance 2020).

The Choice & Access to Life Insurance (2020) study is further supported by studies undertaken in countries that have implemented a ban on commissions. In the UK, after the banning of the payment of product-provider commissions to advisers in 2013, a review by Ring (2016) found that many consumers indicated a strong desire not to pay "upfront" fees, with one-third of consumers expressing they would terminate their adviser if they were charged fees. Similarly, in 2013, financial advisers in the Netherlands were also prohibited from receiving commissions from product providers. A study by Kramer (2018) in the Netherlands found that the willingness of consumers to receive advice was significantly less under the new regime, and an advice gap would emerge among households with low financial literacy. In particular, low-income consumers were more likely not to ask for financial advice because of the cost of the advice. Additionally, the distribution of certain types of products has moved from the adviser channel to direct insurance providers (De Jong 2017). The interview results of the forty-two non-independent advisers support the research in the UK and Netherlands, with twenty-one advisers (51%) stating they do not believe clients will not pay fees for insurance advice.

A further ramification of the possible elimination of life insurance commissions would be a potential increase in the magnitude of the current underinsurance problem in Australia (Flores 2020). A 2017 underinsurance report from Rice Warner found underinsurance costs the government AUD 1246 million per year in life, total and permanent disability and income protection insurance. Rice Warner's 2015 Research Report Underinsurance in Australia found Australians are underinsured by a massive AUD 471 billion for life insurance and AUD 3435 billion for income insurance cover. The study found evidence that supports an increase in underinsurance if the life insurance commission model is terminated, with 51% of non-independent advisers believing clients will not pay for insurance advice. Only one of the seven independent advisers (14.3%) who responded said they are not finding it difficult to provide fee-based insurance advice, and 87% of non-independent advisers indicated they were reliant on the commission model. Furthermore, new annual life insurance sales in the privately owned financial planning sector dropped from AUD 564 million in 2013 to AUD 317 million in 2020. This significant drop has been attributed to the uneconomic viability of providing risk advice (Kendell 2021).

In summary, although previous studies found that commissions can create a conflict of interest (Foerster et al. 2017; Hackethal et al. 2012; Hayne 2019; Hoechle et al. 2018; McInnes and Ahmed 2017), this study found strong evidence that a no-commission system would significantly reduce the amount of life insurance advice provided by advisers to the public, with the affordability of advice being a major factor. The results from the interviews clearly showed that non-independent privately owned advisers are not transitioning to full independent advising because the financial implications of not receiving a commission on life insurance advice would be significant. Furthermore, the study found that independent advisers are having difficulty in providing fee-only advice, with a majority of the advisers having either stopped providing life insurance, providing an insignificant quantity of advice, or looking to outsource the advice. Based on the results of this study and other studies, unless there is strong evidence in the LIF review that insurance commission is directly linked to poor advice, with outcomes that are unacceptable to consumers, the current remuneration model for providing insurance advice may be arguably the most effective model to distribute life insurance cover to the public.

6. Conclusions and Recommendations

In conclusion, the study found strong evidence that privately owned advisers will not be transitioning to independent advising mainly due to the need to continue to receive life insurance commissions. Many previous studies have found that advice that is not fully independent has contributed to poor customer outcomes; however, this study found strong evidence that a substantive transition to full independence would substantially reduce the amount of life insurance advice provided by advisers, with the affordability of advice being a major factor, as discussed in Section 5. Combined with the drop in new annual life insurance sales in the privately owned financial planning sector from AUD 564 million in 2013 to AUD 317 million in 2020 due to uneconomic viability Kendell (2021), and the existing underinsurance problem in Australia, the banning of life insurance commissions may have a devasting effect on the Australian community. The results of this study support the argument that advisers who are not transitioning to independent advice, due to the affordability of providing life insurance advice, continue to provide a valuable advisory service to the community.

Furthermore, this argument is supported by the ASIC (2014) review, which provided evidence that poor advice is associated with high upfront commissions; however, where the adviser is paid under another commission structure, the advice is compliant 93% of the time, compared to the advice being non-compliant 7% of the time. This result suggests a significant improvement in the quality of advice where other forms of commission models are used. The 2014 ASIC Review results combined with studies undertaken in Europe and in Australia (Kramer 2018; Ring 2016) show that consumers are unwilling to pay upfront costs that will be sufficient to cover the cost of producing the advice. Unless the Treasury LIF review in 2022 finds strong evidence that insurance commission is directly linked to poor advice resulting in unacceptable outcomes for consumers, consumers should be given the choice of how they pay for their insurance advice, including the option of commission. The LIF review should compare the quality of insurance advice from both commission-based advisers and non-commission-based advisers. Life insurance companies should also provide policies that enable advisers to offer no-commission policies with the capability of adviser fee collection. The cost of advice fees for insurance advice should also be tax deductible, providing consumers with an incentive to take the fee option.

Lastly, this study recommends Treasury take into consideration the affordability of life insurance advice before recommending any changes to the current remuneration model as part of the LIF review. The study found that there is a strong view among non-independent advisers that the current third-party licensing model is preventing the industry from becoming a profession. Further research should be conducted to determine the impact on all stakeholders of the potential change in the licensing model to an individual licensing model.

Although this study provided valuable analysis of the lack of substantial growth in the independent financial planning industry, it was limited to Australian advisers and the Australian regulatory framework. Because this context is different in each country, a comparative study between countries would be of future benefit to gain a broader understanding of the independent financial planning market and its future.

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