

THE VALUE OF ADVICE

RESEARCH
REPORT

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EXECUTIVE SUMMARY

The provision of professional advisory services is governed by a complex and ever-changing regulatory framework. This is resulting in a rising compliance burden for advisers. Increasingly, there are calls for reforms to ensure advice remains affordable and accessible. A common theme of this commentary is the need for a client-centric model of advice.

CPA Australia's research quantifies what is needed to build a client-centric model; that is, what clients' financial challenges and goals really are and how they define financial advice.¹ 'Clients' includes individuals and Small to Medium Enterprises (SMEs). The research looks at the spectrum of professional advice provided by qualified advisers including accountants, financial advisers, tax agents and mortgage brokers.

CPA Australia undertook 20 in-depth interviews with consumers and SMEs at different life stages. Consumers and SMEs were categorised into segments by age and family background to give context to their different advice needs. The research showed that the need for advice is always present, but is not always complex and often functional.

CPA Australia also undertook a quantitative survey of 1,244 consumers and 815 SMEs.² This focused on the emotional and intangible benefits that advice brings. More than eight in 10 consumers and SMEs said they have had greater peace of mind since receiving professional advice.

Those that do not seek advice are more likely to experience negative impacts on other areas of their life. These include mental, physical and relationship impacts.

CPA Australia's research also showed that professional advice can have significant community benefits. In an Australian first, CPA Australia modelled the economic impact of professional advice for the entire Australian population. The research found that if more people use professional advice, we will be better off as individuals, businesses and a society.

Referencing the 2019 Australian per capita GDP, the potential increase to Australians if everyone was able to access properly implemented professional advice would be equivalent to \$24,716 per person, per year or an aggregate annual contribution equivalent to \$630.26 billion.

Greater access to professional advice would also improve retirement outcomes for Australians and reduce the age pension burden on the government.

So why don't more consumers and SMEs seek professional advice?

The research found that consumers and SMEs see financial advice very differently to lawmakers. For them, it's heavily anchored to their goals. Budgeting and saving, making better investment decisions, retirement planning and paying off debts are all jobs which clients consider to be professional advice and something that a qualified professional should be able to help them with. However, legislatively, these strategies straddle different types of advice, governed by different legislation and regulations.

If we are to build a truly client-centric advice model we need to rethink the way professional advice is regulated. Reform must not only reduce the regulatory burden and complexity highlighted in CPA Australia's 2019 Regulatory Burden Report, it must deliver a model that serves the interests of individuals and SMEs by looking beyond product to how clients view and use professional advice.

¹The full data and methodology behind this research will be released by CPA Australia in 2021.

²For the purposes of the survey, SMEs were defined as a self-employed person or owner in a business with less than \$10 million in annual turnover.

RECOMMENDATIONS

A true consumer-centric advice model must recognise and cater for how consumers and SMEs define their financial advice needs and goals and use advice. It must create a framework where consumers and SMEs can seek the advice and support they want from their chosen professional adviser to meet their financial goals and security.

Reflect Client Goals, Not Product

Key terms must be redefined to reflect consumer and SME goals and needs, as well as be meaningful to the community, not just the financial services sector. This must include separating the strategic advice from product.

One Regulatory Regime, One Regulator

Consumers and SMEs want to be able to access advice to meet their goals from their choice of professional adviser, regardless of the type of advice.

To meet these needs, a single regulatory regime should be established for the regulation of professional advice, monitored and enforced by one regulator. Professional advice includes financial planning, consumer credit and taxation.

Single Code of Conduct

A principles-based statutory code of conduct that clearly sets out a consistent and uniform framework of expected ethical responsibilities and behaviour should be implemented for this single regime.

The single regulator must be responsible for monitoring and enforcement of the code of conduct, as well as administering any disciplinary action as a result of non-compliance.

This will ensure a consistent approach to the monitoring and enforcement of ethical behaviour for professional advisory services, with a strong focus on conduct, culture, and – most importantly – the client.

Individual Registration of Advisers

Individual registration of professional advisers would lead to greater responsibility and accountability, requiring a personal commitment to integrity, competence and ethics.

This would foster and strengthen the relationship between client and adviser and also reduce or remove conflicts of interest between consumers, advisers and licensees that may arise in the current regulatory context.

This model would require the individual adviser to select the areas of advice and, if applicable, products they wish to seek registration for and demonstrate that they have met the appropriate education and experience for each area of registration as set by the single regulator.

ADVICE NEEDS

Drivers

The biggest drivers of advice needs in the Australian community are a desire not to worry about finances and to feel in control. This is often articulated by consumers and SMEs as personal or business goals. When considering the needs of consumers and SMEs, advice needs to be framed in the context of their financial goals and worries. Specific financial goals may vary but they are underpinned by the need to feel in control of their finances.

In addition to demographic attributes like age and wealth, financial literacy plays a large role how consumers and SMEs perceive professional advice. CPA Australia's survey shows that SMEs are typically more confident about their financial literacy, with almost three-quarters (73.3 per cent) rating it as high compared to less than half (48.7 per cent) of consumers.

However, there may be an overconfidence issue among SMEs. When measured objectively, a similar percentage of SMEs (41.0 per cent) and consumers (42.9 per cent) exhibit a high level of financial literacy.

Interviews conducted for the research reveal that most Australians believe professional advice could best help them with their needs by giving them a view of what their financial future looks like and how it can be improved. While there are some common drivers of advice needs, in practice every individual is different. Interviewees revealed a clear desire for personalised feedback and understanding of their specific situation.

SMEs have the added needs of their business on top of their personal financial needs. Their underlying need is still the same, however, in that they want to not worry about their finances and remain in control. Some of the financial issues that arise for individuals are exacerbated for business owners.

There is a clear desire among SMEs for stability. This has been intensified by the economic havoc caused by COVID-19. Uncertainty is the main source of SMEs' financial stress and difficulty; they want to be able to plan for their business. This has been intensified by the economic havoc caused by COVID-19. There is a demand from SMEs for support to help them plan for contingencies to protect themselves more from unknown factors.

Figure 1: Subjective financial literacy

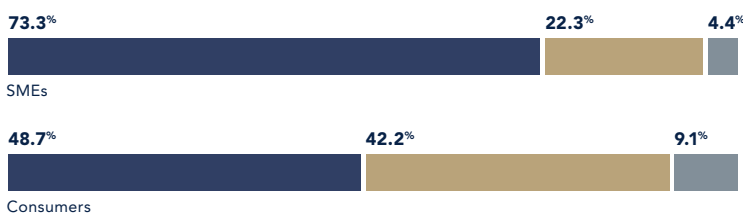


Figure 2: Objective financial literacy

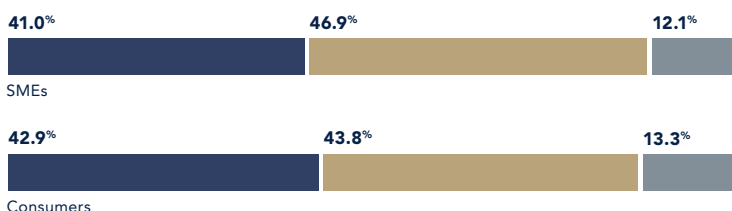


Chart key

High Neutral Low

“ The stress has obviously increased there. Just not knowing what’s going to happen... generally it’s stressful in the regard to the economy and also health and wellbeing. ”

(SME)

Advice Strategies

Specific strategies to achieve their goals will vary depending on a number of factors, most importantly, life stage. A young couple in their twenties, for example, may be aiming to save for a house deposit, whereas a pre-retiree couple may be more focused on building towards retirement. Even so, throughout different life stages there are common themes that emerge in the kinds of advice strategies that consumers and SMEs are looking for.

The most common themes were saving, budgeting and debt management. Consumer and SME survey respondents were aware of the importance of saving in achieving their goals. The research showed that saving is a theme that recurs throughout a person’s lifetime, even if the ultimate goal differs depending on their life stage.

An individual’s family situation is a significant driver of financial decision making and goal setting.

For many, taking care of their loved ones is a general priority, though the specifics may vary. For example, younger respondents are more focused on starting a family or supporting a young family. Meanwhile, older respondents are drawn to the goal of leaving some money for their children or grandchildren.

The themes of budgeting and saving, making better investment decisions, retirement planning and paying off debts were also articulated when respondents were asked to articulate their financial goals. These underlying goals can be described as ‘advice needs’, and the research showed they are often present whether a person is currently advised or not.

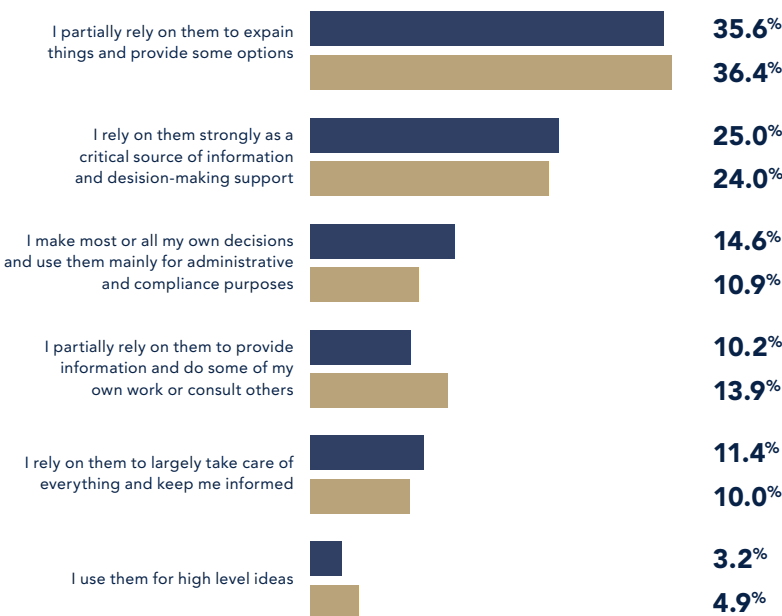
Advice Delivery

Consumers and SMEs did not distinguish between advice types. From their point of view, different types of advice are seamless and fall under the definition of professional advice. Advice types were regarded as functional jobs to be done and not always complex.

In some cases, consumers and SMEs are looking for debt, credit, savings and superannuation advice as part of achieving their financial goals. To the consumer or SME, these are all jobs a qualified professional should be able to help with. Legislatively, however, these strategies straddle different types of advice and are governed by different legislation and regulations.

The way advice is best delivered to consumers and SMEs can vary. This may range from letting a professional adviser take care of all aspects of their finances, to having a professional adviser as a sounding board to test ideas on while they take charge of their finances themselves. Around one-third of consumers (36.4 per cent) and SMEs (35.6 per cent) want a professional adviser to provide options and develop or suggest strategies that the consumer or SME would not otherwise have considered.

Figure 3: Which of the following best describes the extent to which you rely on your main source of help?



n = 466, SMEs; 432, Consumers, who are professionally advised

Chart key

■ SMEs ■ Consumers

“ Retire and live comfortably, assisting children financially if necessary. ”
 (60 and above, Professional)

DEFINING FINANCIAL ADVICE

'Professional advice' in this report covers the spectrum of advisory services provided by qualified individuals including accountants, financial advisers, tax agents and mortgage brokers. This is compatible with the way consumers and SMEs conceptualise advice.

Consumers and SMEs see advice through a very different lens to the legislative and regulatory definitions. For them, financial advice encompasses a broad range of professional advice services and non-professional advice from people they trust, such as friends and family. Consumers and SMEs' perspective is heavily anchored on their experience or the perceived value they receive or could receive from financial advice.

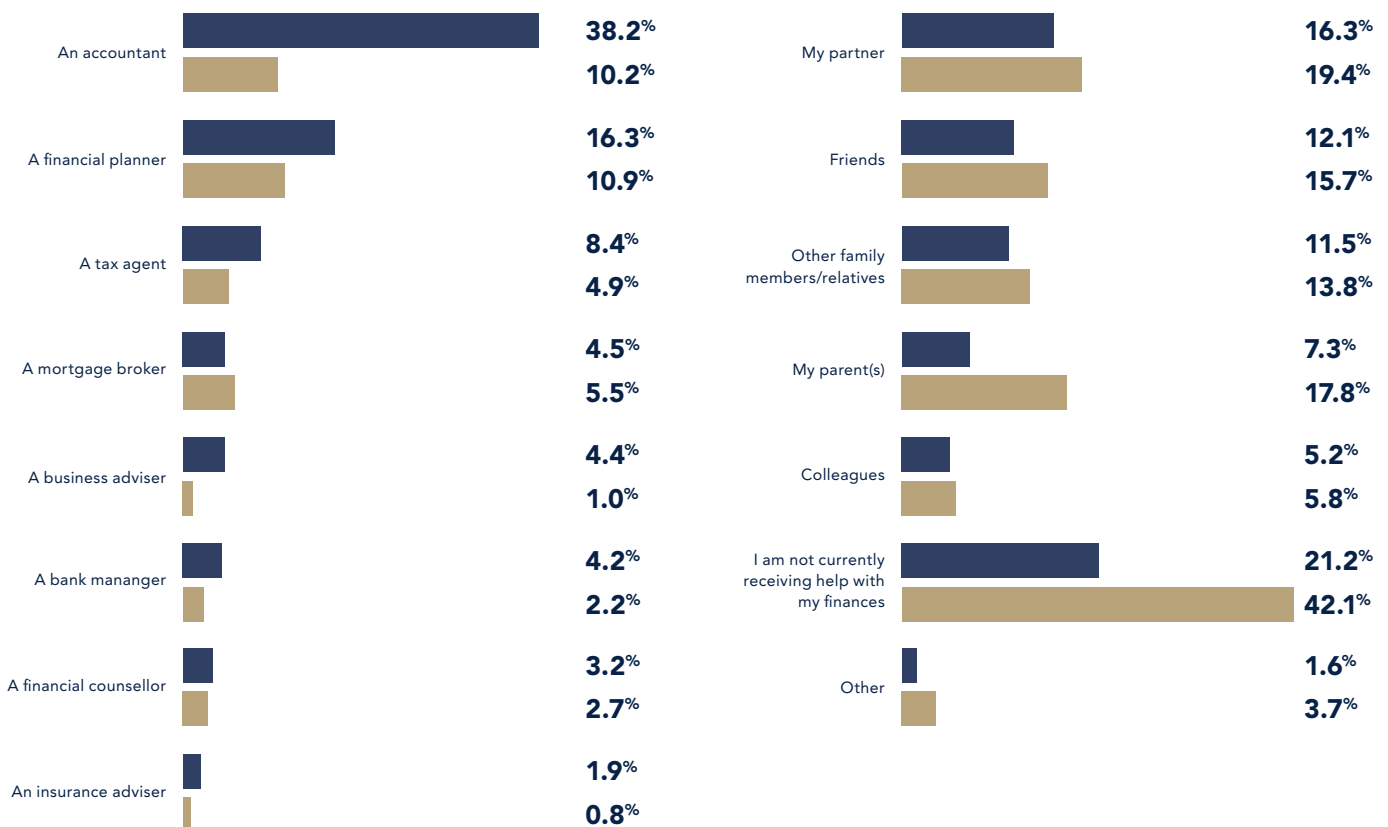
When interviewees were asked to define financial advice, they commonly explained it as a service that provides more stability and enables a better long-term financial position through personalisation of services. The definition of financial advice was also dependant on the specific goals of each individual, which is highly dependent upon their stage of life.

For younger Australians, financial advice tends to be in the form of general tips with investment decisions from friends, family and even the internet. For older Australians, financial advice may be more tailored towards retirement preparation. For business owners, financial advice is likely to be seen as something more specific to their situation, rather than a general strategy.

Consumers and SMEs receive help with their finances through a number of relationships, ranging from professional advisers to casual contacts. Most Australian consumers and SMEs do receive help with their finances in some form.

They may not seek professional help, but they do admit to looking for advice within their personal networks. Family members or friends are the most common sources for consumers when seeking help with their finances, while SMEs tend to seek help from accountants. However, there is still a significant proportion of the population who do not receive any help with their finances at all, at around two-fifths (42.1 per cent) of consumers and one-fifth (21.2 per cent) of SMEs.

Figure 4: Whom are you currently receiving help with your finances from?



n = 815, SMEs; 1,244, Consumers
*Multiple answers allowed

Chart key
 SMEs
 Consumers
 %Yes

CONSEQUENCES FOR THE UNADVISED

Unexpected Events or Expenses

Sometimes unexpected events or expenses occur and place a major obstacle in the way of even the best-laid, holistic financial plan. During 2020 we have seen COVID-19 create financial turmoil for individuals.

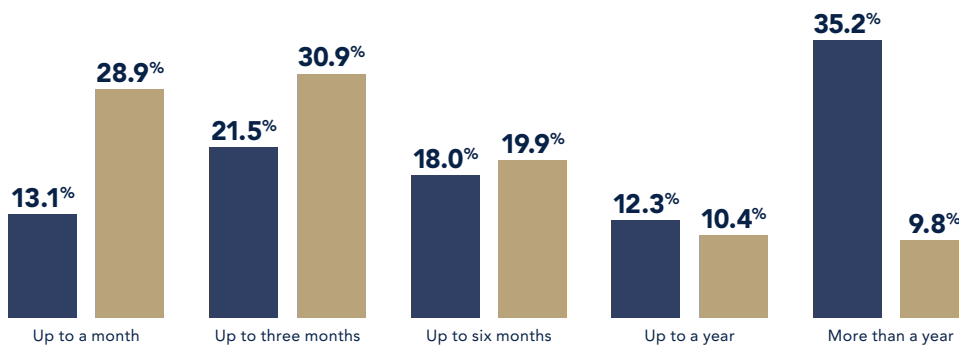
By their very nature, unexpected events can be extremely difficult to plan for, no matter what kind of professional advice an individual receives.

For example, having to suddenly stop work through unemployment or illness and losing the primary source of income would be a major problem for many.

Six in ten consumers (59.9 per cent) said they could only cope financially for up to three months if they were suddenly unable to work.

SMEs are seemingly better prepared, although only around one-third (34.5 per cent) could manage for up to three months.

Figure 5: If you were suddenly unemployed/unable to work, for how long do you feel you could manage financially before needing to be employed/work again?



n = 815, SMEs; 789, Consumers, who are employed

Chart key

■ SMEs ■ Consumers

“ It helps with our insurance and workforce... because that’s a bit complicated with blended finances. ”

(SME)

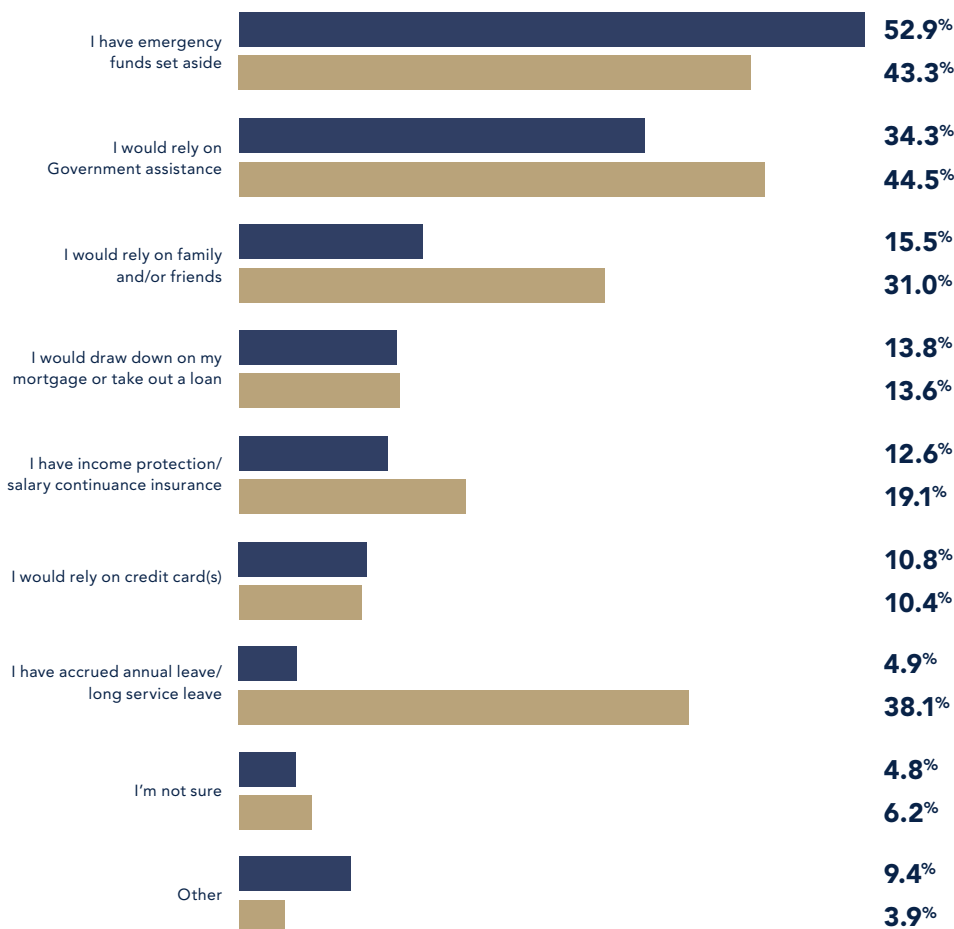
PLANNING FOR CONTINGENCIES

Consumers said they would most likely rely on government assistance (44.5 per cent) to help them financially if they were to become unemployed, followed closely by relying on emergency savings (43.3 per cent). The primary fallback for the majority (52.9 per cent) of SMEs is to rely on emergency funds they have set aside, although one-third (34.3 per cent) said they would also rely on government assistance to help them through financial issues caused by unemployment.

Professional advice can play a constructive role in preparing consumers and SMEs to cope with the unexpected. On an individual level, professional advice can play an important role in financial education and improving financial literacy. More broadly, advice can reduce the burden governments may face from supporting individuals on welfare payments.

Unexpected events like bushfires weaken the financial security of consumers and SMEs. These events are relatively common, even if their timing and frequency is unpredictable, and impact consumers (15.6 per cent) and around one in five SMEs (22.9 per cent), as shown in Figure 7 later in this report.

Figure 6: Which of the following would you rely on, if you were suddenly unemployed/unable to work for more than three months?



n = 815, SMEs; 789, Consumers, who are employed

*Multiple answers allowed

Chart key

■ SMEs ■ Consumers %Yes

COVID-19

CPA Australia's research on consumers and SMEs was conducted during the COVID-19 pandemic. The pandemic created global economic turmoil and at the time of the research, had sparked renewed fears of a recession on the scale of the 2008 global financial crisis. The pandemic is still ongoing at the time the research was published. We do not know the full impact that COVID-19 will have on the Australian economy and population.

According to the Australian Bureau of Statistics, GDP fell by 7.0 per cent in the June quarter of 2020 as a result of the restricted economic activity. GDP fell by 0.2 per cent in the full financial year to June 30, 2020, bringing an abrupt end to Australia's 28-year growth streak.

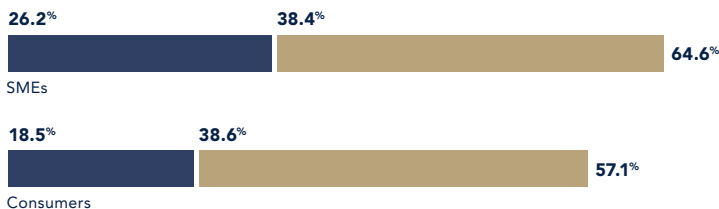
Even at this stage of the pandemic, we can see that COVID-19 has had a significant adverse impact on the financial security of consumers and SMEs.

The survey showed that more than half of consumers (57.1 per cent) and almost two-thirds of SMEs (64.6 per cent) have experienced detrimental effects to their financial security as a result of the pandemic.

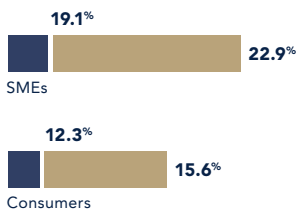
The scale of the impact from COVID-19 is far greater than other (mostly natural) disasters experienced in Australia. Only one-fifth of SMEs (22.9 per cent) and an even smaller proportion of consumers (15.6 per cent) say their financial security has been adversely impacted by issues as bushfires and drought, around one-third the impact of COVID-19.

Figure 7: Do you feel your financial security has been adversely impacted by the following?

THE ONGOING COVID-19 (CORONAVIRUS) PANDEMIC



NATURAL DISASTERS, SUCH AS BUSHFIRES, DROUGHT AND EXTREME FLOODING



n = 815, SMEs; 1,244, Consumers

Chart key

■ Yes, severe impact ■ Yes, some impact

“ The uncertainty. It's because we don't know whether the economy is going to open up in two weeks, three weeks or four weeks or how is it going to be? ”

(SME)

COVID-19 IMPACT

Financial security is closely tied to job security and there is a significant proportion of the population who worry about their current employment.

Three in 10 consumers (28.2 per cent) and two in 10 SMEs (22.4 per cent) worry about their job security and the risk of suddenly experiencing reduced income. These risks could potentially be amplified as the impacts of COVID-19 continue to be revealed.

Since CPA Australia’s survey of consumers and SMEs was conducted in the first half of June 2020, the government’s JobKeeper payment has since been reduced and looks to end by the second quarter of 2021.

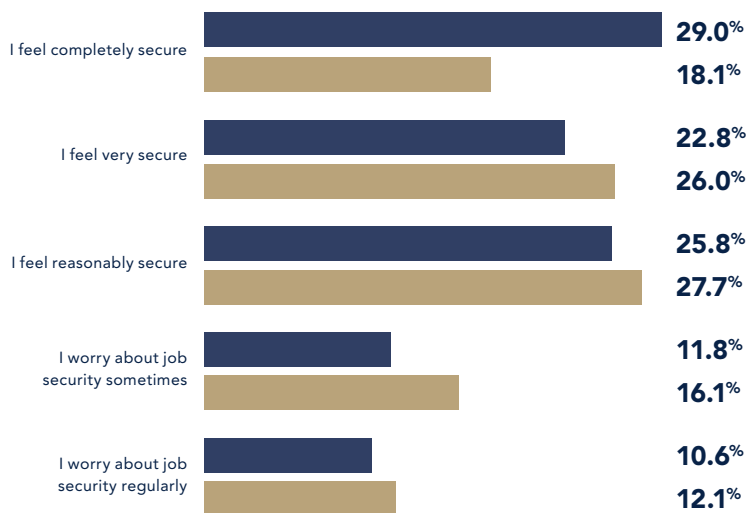
As shown in Figure 7, COVID-19 has had an adverse impact on the financial security of the majority of consumers and SMEs.

Unadvised consumers and SMEs are demonstrably less prepared for the unfortunate consequences of becoming unemployed, lacking as they do access to emergency funds or a robust plan.

As shown in Figure 6, close to half of consumers (44.5 per cent) and around a third of SMEs (34.3 per cent) would rely on government assistance should they be suddenly unemployed.

A lack of financial security typically leads individuals to worry about money more, in both the short and long term. A lack of financial security negatively affects an individual’s standard of living and how comfortable they feel in their current situation. Lacking financial security, peace of mind can be a challenge for consumers and SMEs.

Figure 8: What level of job security do you feel in your current employment?



n = 815, SMEs; 1,244, Consumers, who are employed

Chart key
■ SMEs ■ Consumers

// Because we’re viewing coronavirus as temporary and we’ve managed to save prior to coronavirus, so we feel like we’ve been able to weather a temporary interruption. **//**

(Young family)

FINANCIAL SECURITY

Health Impacts

Adverse mental health impacts associated with poor financial security are a significant and growing cause for concern and rate second for consumers and third for SMEs as intangible impacts.

Money issues and stress stemming from low financial security flow into other aspects of an individual's life.

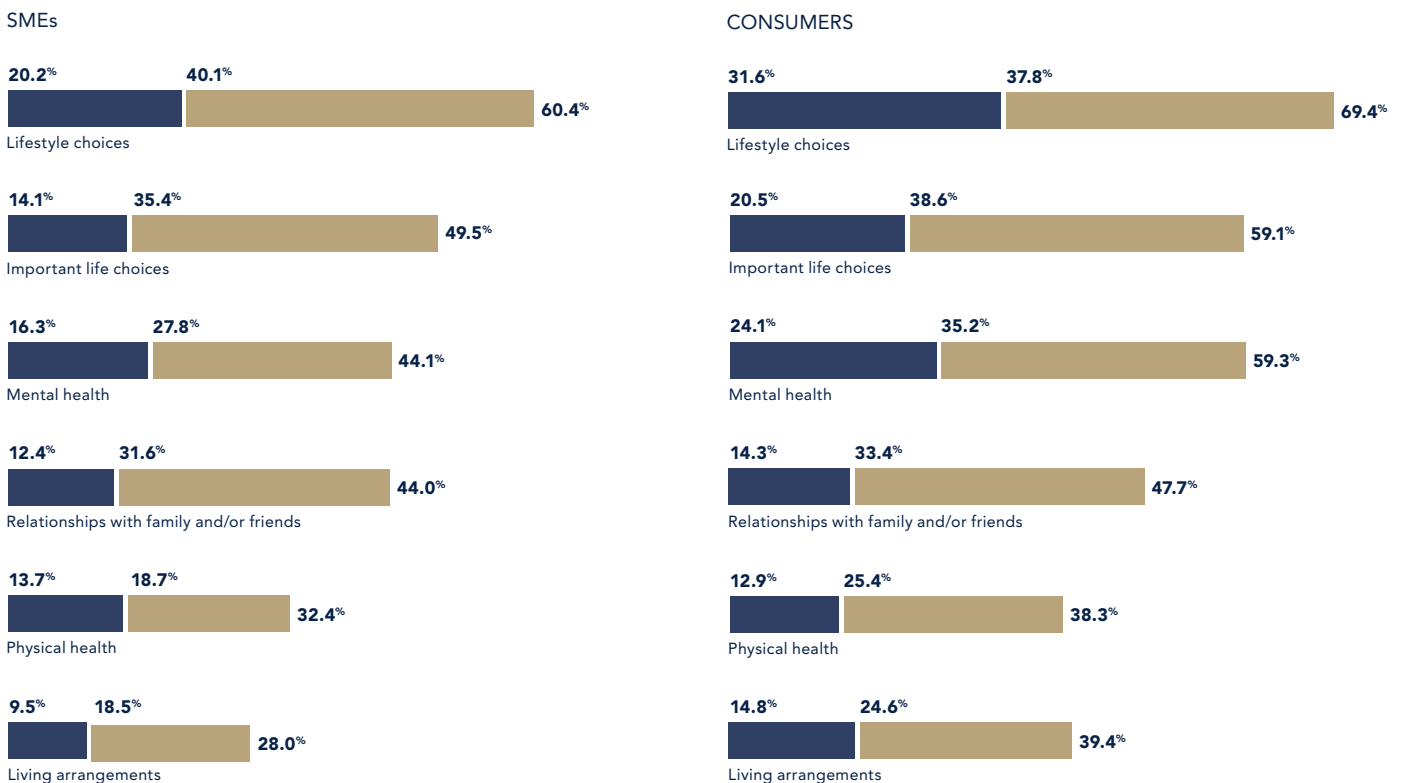
The survey showed that financial issues have an adverse impact on consumers and SMEs involving a range of non-financial issues in addition to mental health, including relationships with family and friends, and the ability to make important life choices.

The survey showed the intangible impact of financial issues is more pronounced among consumers, although it still had a significant impact on SMEs.

Seven in 10 consumers (69.4 per cent) and six in 10 SMEs (60.4 per cent) reported adverse effects on their ability to make lifestyle choices.

The strain from these effects can trickle into relationships with family or friends, with five in 10 consumers (47.7 per cent) and four in 10 SMEs (44.0 per cent) reporting a negative impact on relationships. Financial issues can also impact physical health, with around one-third of consumers (38.3 per cent) and SMEs (32.4 per cent) experiencing the impact.

Figure 9: Have financial issues ever adversely affected your ...?



n = 815, SMEs; 1,244, Consumers, who are employed

Chart key

■ Yes, several times ■ Yes, once or twice

Retirement

Unadvised individuals are less likely than advised individuals to be well prepared for retirement. Almost half of unadvised consumers (48.4 per cent) and one-quarter of unadvised SMEs (25.0 per cent) do not feel they have enough money for their desired retirement, compared with 23.5 per cent of advised consumers and 16.8 per cent of advised SMEs.

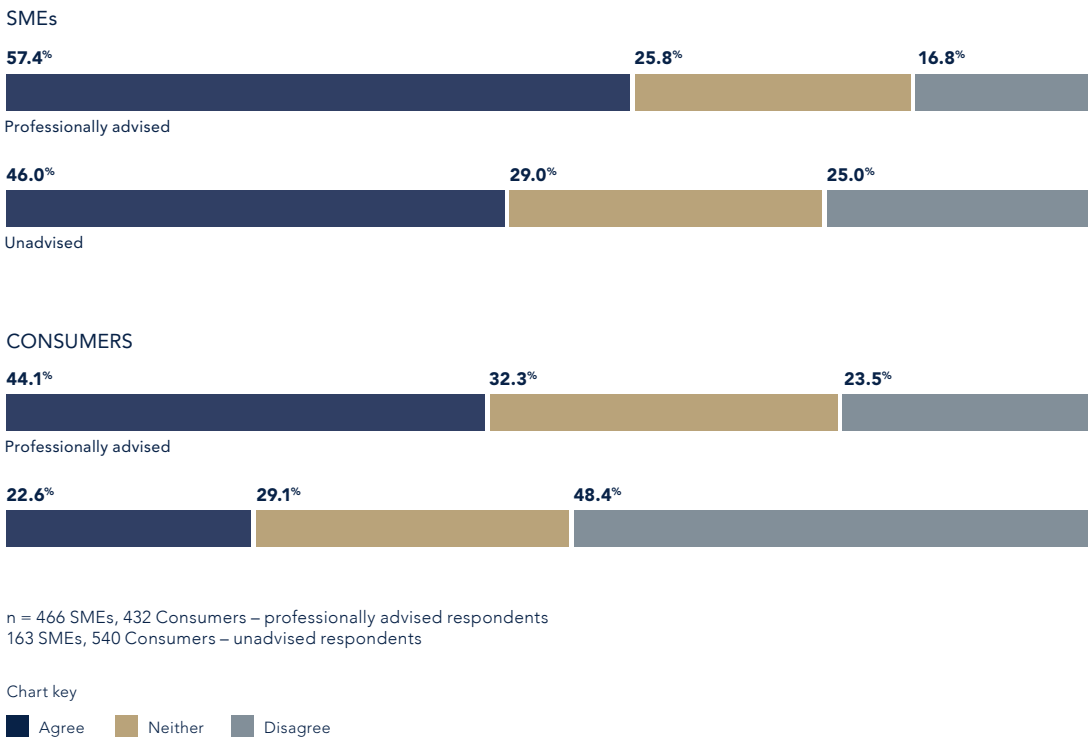
A substantial proportion of unadvised consumers and SMEs do not believe they are on-track for retirement and will most likely require welfare assistance from the government.

This is a significant burden for the government, costing \$48.3 billion annually, according to the 2019-20 Federal Budget.

This burden is expected to increase, with spending on the age pension projected to rise in each year until 2054-55.³

This would mean an increase from 2.9 per cent of gross domestic product (GDP) in 2014-15 to 3.6 per cent of GDP by 2054-55.

Figure 10: I am on track to have enough money for a retirement I will be happy with



“ Not having enough superannuation to live on retirement. ”

(50 to 59, Labourer)

RETIREMENT PLANNING

³ 2015 Intergenerational Report, Australia in 2055

Gender

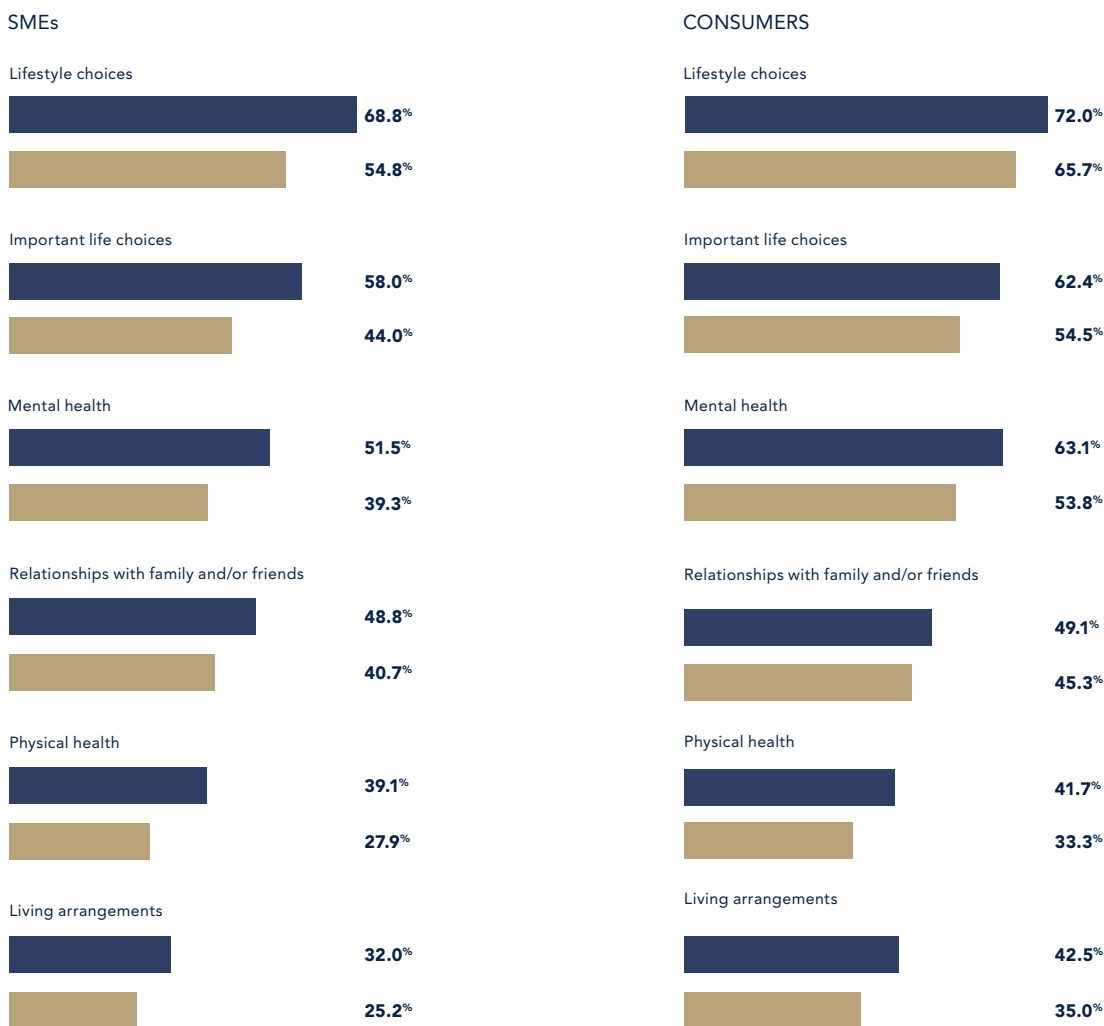
Women are more likely than men to experience a negative impact on their wellbeing from financial issues. This applied to every aspect measured in this research: lifestyle choices, important life choices, mental health, relationships with friends and family, physical health and living arrangements. More than half of female SME owners (51.5 per cent) and almost two-thirds (63.1 per cent) of female consumers have experienced financial issues which have adversely affected their mental health.

This could be driven by the fact that a higher proportion of women than men tend to worry about financial issues frequently.

Around half of female consumers (49.9 per cent) and SME owners (53.2 per cent) worry about money at least weekly, whereas 42.4 per cent of male consumers and 41.1 per cent of male SME owners worry about money as frequently.

Female SME owners are also twice as likely as their male counterparts to have unmet advice needs (22.5 per cent compared with 10.7 per cent), while the difference is less stark but still significant for consumers (20.3 per cent of females compared with 15.3 per cent of males).

Figure 11: Have financial issues ever adversely affected your ...?



n = 815, SMEs; 1,244, Consumers

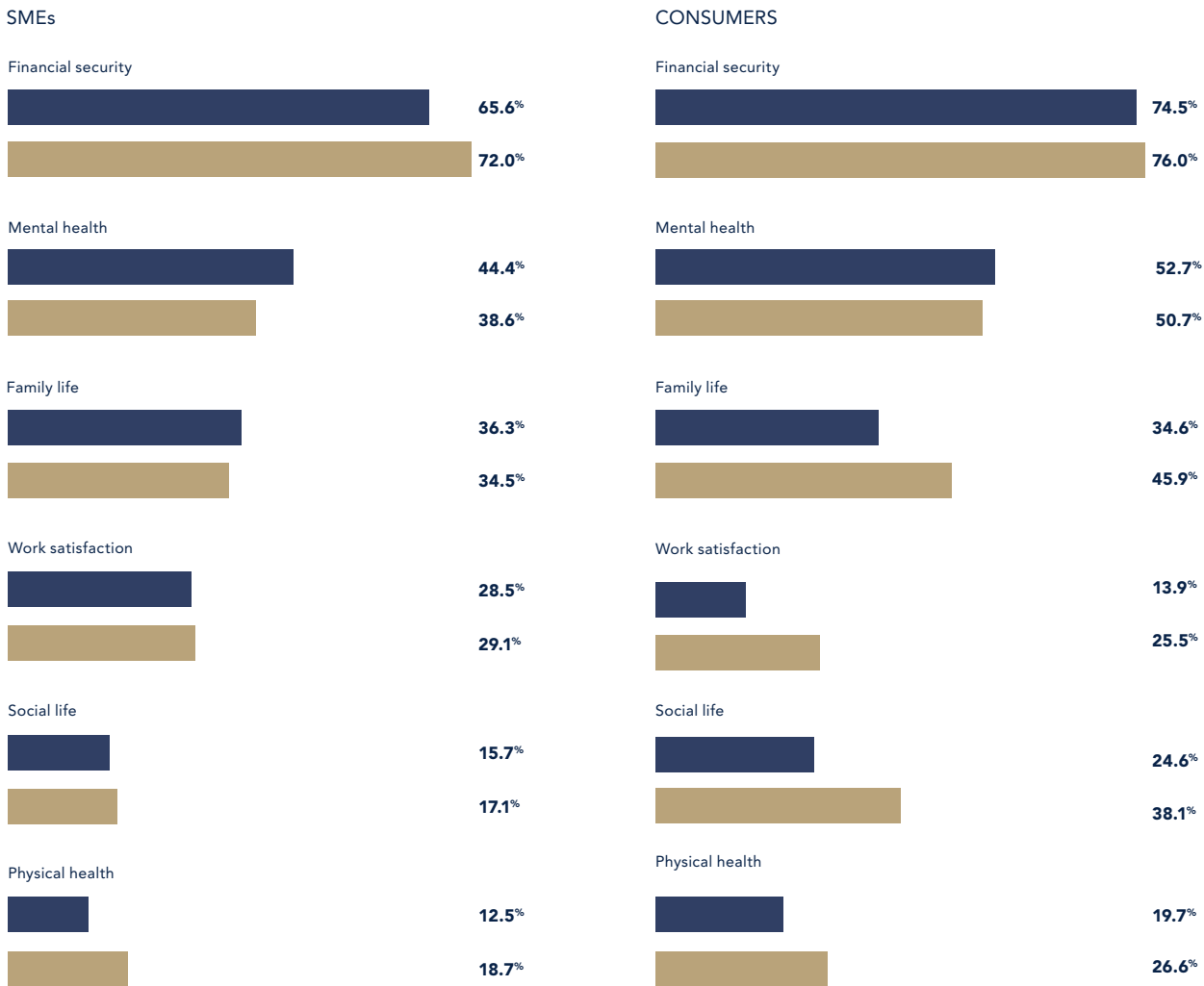
Chart key

Female Male

Examining the intangible benefits that men and women receive once they get help with their finances yields more mixed results, even though more women report having suffered more adverse effects from financial issues.

When we look at consumers, a higher proportion of men than women report an improvement in their family life, social life, work satisfaction and physical health.

Figure 12: Which aspects of your life have benefited from receiving help with your finances?



n = 815, SMEs; 1,244, Consumers

Chart key
 Female
 Male

BARRIERS TO SEEKING ADVICE

Lack of Trust

There is a major confidence issue with financial advice. Many consumers and SMEs do not believe they need it, because they do not trust it. The survey showed that around one in six (16.6 per cent) consumers and one in five SMEs (19.6 per cent) cite a lack of trust as a reason for not seeking help with their finances.

CoreData's Trust in Financial Services Benchmark has been tracking the trust sentiment among consumers every quarter since the beginning of 2018. From this research we can see that Australians' level of trust in financial advice is consistently lower than their trust in accounting services.

Following the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry, trust in financial advice took a significant dip. It has taken some time to recover and is still very much behind trust in accounting. Trust in mortgage broking has remained consistently below financial advice and accounting services since Q4 2018 (when mortgage broking was first added to the survey series).

While financial advice seems to have a particularly negative perception among consumers and SMEs, we can see from the Trust in Financial Services Benchmark that accountants and mortgage brokers tend to follow the same trend as financial advisers.

When trust is raised in one sector, there is a high likelihood it will also increase for other advice professionals. The causes of the lack of trust vary from having heard stories about financial advice, from events like the Royal Commission to their own perceptions or having had a bad experience with an adviser in the past.

Figure 13: CoreData's Trust in Financial Services Benchmark

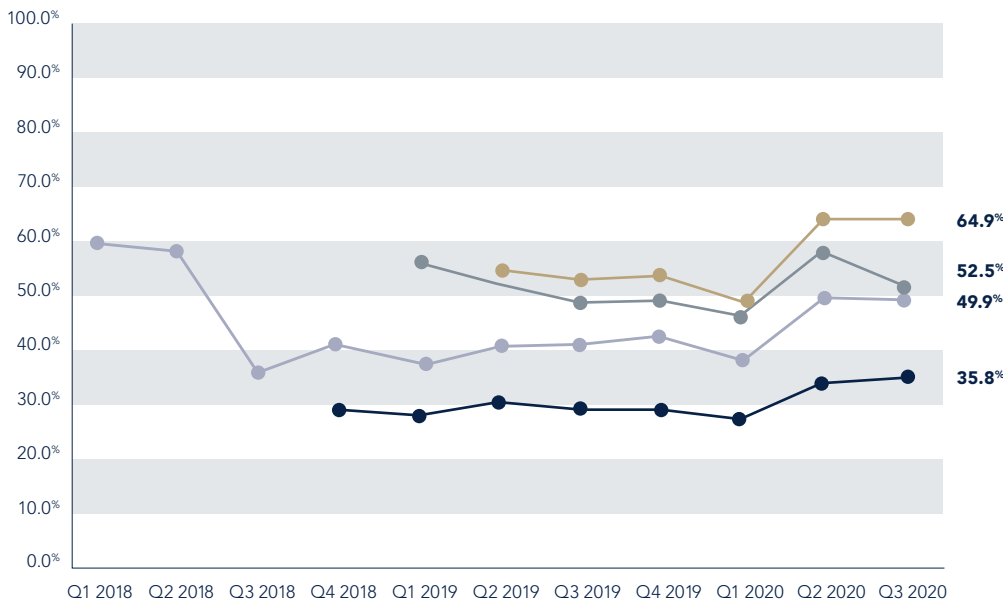


Chart key

Accounting*** Royal Commission into financial services** Mortgage Brokers' Financial Advice

*New option Q4 2018 **New option Q1 2019 ***New option Q2 2019

Other Factors

The survey also revealed other reasons why consumers and SMEs do not seek help with their finances. More than a third of consumers (35.9 per cent) and almost half of SMEs (47.8 per cent) believe they can manage their own financial affairs, while a quarter of consumers (25.2 per cent) and more than a third of SMEs (37.8 per cent) would rather do it themselves.

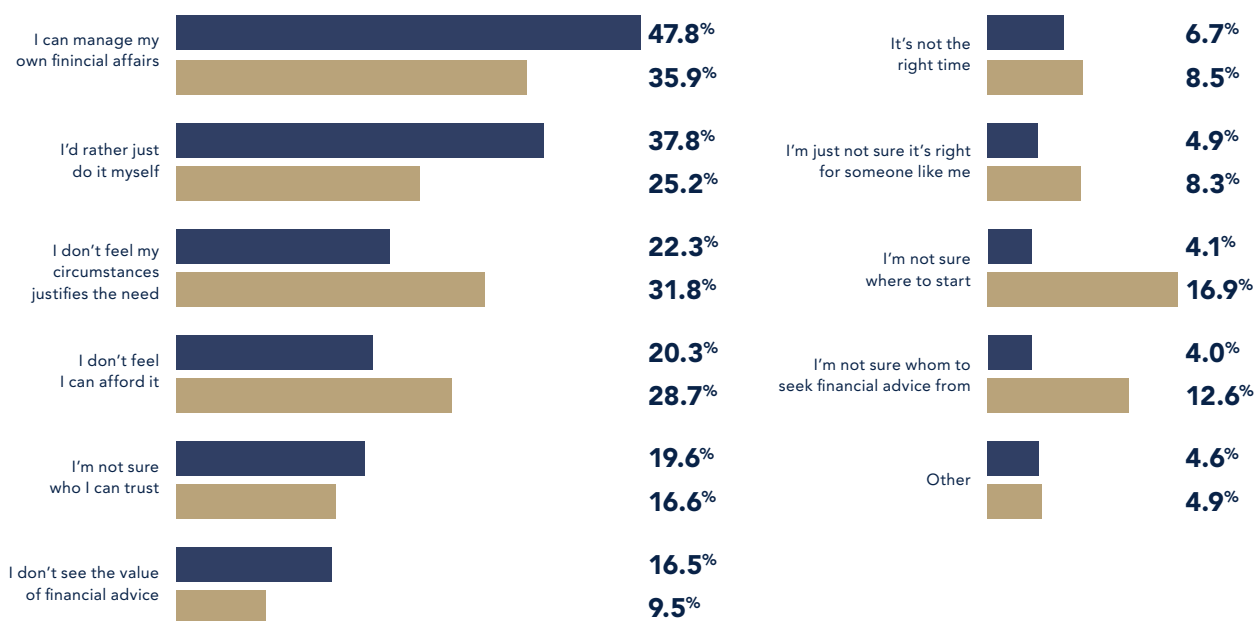
Both reasons potentially stem from a lack willingness to trust someone else with managing their financial situation, a topic that is usually only discussed with close friends and family.

Perceptions of value are also a barrier for consumers and SMEs in receiving professional advice. The fees associated with professional advice play a role in the decision making of consumers and SMEs as to whether to seek advice services.

Around three in 10 (28.7 per cent) consumers and two in 10 (20.3 per cent) SMEs cited that they do not feel that they can afford advice. Similar proportions of consumers (31.8 per cent) and SMEs (22.3 per cent) believe that their circumstances do not justify the need for professional advice.

A further 9.5 per cent of consumers and 16.5 per cent of SMEs do not see the value of professional advice. These reasons may also be impacted by a general misunderstanding of the value that professional advice can bring.

Figure 14: Why are you not currently receiving help with your finances?



n = 185, SMEs; 470, Consumers, who are not currently receiving help with their finances
 *Multiple answers allowed

Chart key
 ■ SMEs ■ Consumers %Yes

BENEFITS OF SEEKING ADVICE

Tangible and Intangible Benefits

As previously explored, financial issues may have a detrimental impact on an individual’s mental health, physical health, and their relationships with family or friends. Professional advice can alleviate financial issues and in turn have a marked positive effect on social and health issues. When financial issues are well managed, the benefits are not just monetary.

The overwhelming majority of consumers (81.2 per cent) and SMEs (73.9 per cent) say there are benefits to their financial security from receiving professional advice with their finances.

On the SME side, four in 10 (40.2 per cent) say there are mental health benefits, three in 10 (31.5 per cent) say there are improvements to their family life and three in 10 (30.3 per cent) say there are benefits to their work satisfaction.

For consumers, almost five in 10 (47.7 per cent) see mental health benefits, three in 10 (32.7 per cent) see family life improvements and more than two in 10 (24.7 per cent) see improvements to their social life.

One in five of SMEs (17.5 per cent) and consumers (17.6 per cent) also say they have experienced physical health benefits from receiving professional advice.

Financial and mental wellbeing are intertwined. Individuals who receive professional advice report better mental health.

Approximately four in five advised Australians, either consumers or business owners, say professional advice has given them greater peace of mind about their finances, greater control over their financial situation, and improved financial security.

Figure 15: Which aspects of your life have benefited from receiving help with your finances?

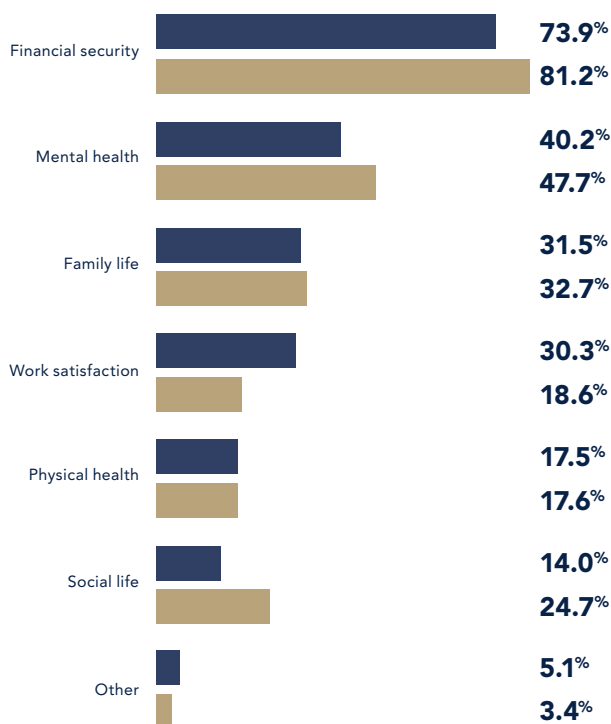
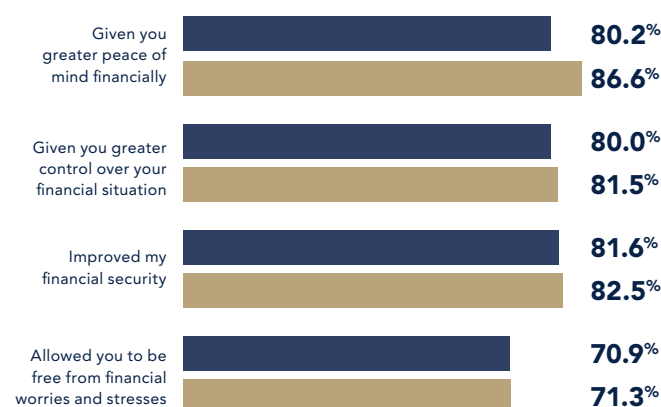


Figure 16: Overall, has receiving professional advice...?



n = 466 SMEs, 432 Consumers – professionally advised respondents

n = 466 SMEs, 432 Consumers – professionally advised respondents
Multiple answers allowed. Professionally advised only.

Chart key
 SMEs
 Consumers
 %Yes

Education and Guidance

The survey showed that 82.5 per cent of SMEs and 85.8 per cent of consumers agree that receiving advice has improved their financial skills and knowledge.

Interacting with a qualified professional helps consumers and business owners clarify their financial issues, understand what options are available to them, assess their capacity for taking risk, and make practical plans to achieve their goals.

Figure 17: Overall, has receiving professional advice...?



n = 466 SMEs, 432 Consumers – professionally advised respondents

Chart key

■ SMEs ■ Consumers %Yes

“ I would probably be a seven or an eight [financial literacy]... it used to be a lot worse. We’ve definitely gotten a lot better in the last two years. ”

(SME)

THE MACROECONOMIC VALUE OF ADVICE

The benefits of professional advice to individuals are well documented, but there has been little research on the benefits experienced at a broader community level. The macroeconomic model developed exclusively for this report estimates the potential monetary value of professional advice for Australian society.

The research examined one of the main economic benefits of professional advice, namely, risk reduction. This is the theoretical improvement that can be made when idiosyncratic risk (the risk associated with a specific asset or security) is reduced or eliminated in the Australian community using properly implemented professional advice.

The state of the Australian economy as it is today is compared with a theoretical economical state where professional advice is more widespread. The research showed that in a theoretical world where properly implemented professional advice was accessible and utilised by the entire population, the total monetary uplift could be equivalent to \$630.3 billion in a year. This would also create a flow-on effect on government spending on the Age Pension, with spending reduced by 21.6 per cent, or \$10.4 billion per year.

Value of Advice – Individuals

Professional advice can leave individuals better off, whether through making better investment decisions or better managing their budgets, risk, tax and cashflow through different life stages. To evaluate the aggregate impact of professional advice on the economy, the research first examined the average benefit of professional advice on different cohorts of the Australian population.

The table below shows that the benefit of properly implemented professional advice can be equivalent to up to 30.6 per cent of an individual's total personal income per year, on average. The value of professional advice is potentially greater for those in an early life stage (43.6 per cent) and those who have retired (35.7 per cent). These life stages often exhibit more uneven income patterns, which means that professional advice can have a greater effect on these cohorts by reducing their income risk.

Value of Advice – Society

Based on the economic modelling, the societal improvement that professional advice can make is equivalent to 30.6 per cent of personal income, on average. Referencing the 2019 Australian GDP per capital, this is equivalent to a potential uplift of \$24,716 a person, per year.

In a best-case scenario where the entire Australian community had access to properly implemented professional advice, the total contribution of professional advice to the Australian economy would be approximately \$630.3 billion per year.

While these figures are tremendous, realistically they are unachievable. However, increasing the uptake of professional advice by any amount from its current level could deliver significant benefits to the economy. The survey showed that 39.1 per cent of the population currently receives some form of advice from qualified professionals, including accountants, financial advisers, mortgage brokers and tax agents.

This is the 'current state' scenario. In a scenario where professional advice is more accessible to the general population, there is still a significant benefit to the Australian economy. If we examine a hypothetical world where the uptake of professional advice increased to 50.0 per cent of the Australian population, the potential aggregate contribution achieved is approximately \$112.8 billion in a year.

The wealth effect of professional advice enhances lifelong income by facilitating wiser investment decision making and reducing unnecessary expenditure, such as interest on debt or tax. In theory, an increase in wealth in turn supports higher expenditure or propensity to consume, and a greater likelihood of achieving financial and lifestyle goals.

Figure 18: Average value of professional advice by life stage

Life stage	Value from professional advice
Young: 15 – 34 years old	43.6%
Middle aged: 35 – 49 years old	21.5%
Senior: 50 – 64 years old	22.6%
Retired: 65 and above	35.7%
Total aggregate	30.6%

Value of Advice – Government Expenditure

Professional advice not only brings benefits to individuals but can also relieve the government from welfare spending, primarily through a reduction in Age Pension payments. The ageing population in Australia has increased demands on government welfare systems.

This trend looks set to go on as the baby boomer generation continues into retirement.

Properly implemented professional advice could reduce the reliance on social welfare as higher proportions of the population would arrive at retirement better prepared to support themselves, thus being less reliant on government payments.

In the best-case scenario, government spending on the age pension would be reduced by up to 21.6 per cent. Examining a more realistic scenario, if we hypothetically increase the uptake of professional advice to 50.0 per cent of Australians, that could lead to a 3.9 per cent saving in government spending on the Age Pension.

Referencing the 2019-20 Australian Budget expenses for the Age Pension, that figure is equivalent to \$1.9 billion a year saved in government spending. Greater access to professional advice will improve the retirement outcomes for Australians, and at the same time reduce the burden of the Age Pension on the government.

Figure 19: Value of professional advice to the economy for different proportions of uptake of professional advice

Uptake of professional advice in the Australian community	Aggregate benefit to the economy per year
39.1%	Current professional advice uptake level
40.0%	\$9.3b
50.0%	\$112.8b
60.0%	\$216.3b
70.0%	\$319.8b
80.0%	\$423.3b
90.0%	\$526.8b
100.0%	\$630.3b

Figure 20: Saving on Age Pension expenditure for different proportions of uptake of professional advice

Uptake of professional advice in the Australian community	Reduction of government spending on the age pension per year	Equivalent dollar value saving per year
39.1%	Current professional advice uptake level	-
40.0%	0.3%	\$0.2b
50.0%	3.9%	\$1.9b
60.0%	7.4%	\$3.6b
70.0%	11.0%	\$5.3b
80.0%	14.5%	\$7.0b
90.0%	18.1%	\$8.7b
100.0%	21.6%	\$10.4b

THE NEED FOR CHANGE

The benefits of professional advice to individuals are evident. If more people access professional advice, we will be better off as individuals, businesses and a society. We will improve the retirement outcomes for Australians and reduce the burden of Age Pension expenditure on the government.

To enable more consumers and SMEs to access professional advice, the current complex regulatory frameworks that govern the provision of professional advice must be simplified.

A true consumer-centric advice model must recognise and cater for how consumers and SMEs define their financial advice needs and goals and use advice.

Such a model must reduce the complexity between the different types of professional advice and advice providers to build a model where a client can seek the advice they want from their chosen professional adviser to meet their financial goals and security.

Creating such a model will address the regulatory burden currently borne by the professional advice sector.

Even more importantly, CPA Australia's research has shown that if more people access professional advice, we will be better off as individuals, businesses and a society.

RESEARCH METHODOLOGY

Background

This research was commissioned by CPA Australia and conducted by CoreData Research. It explores Australians' financial goals, financial issues, financial literacy and how these influence their professional advice needs.

The core purpose of the research project is to demonstrate the tangible and intangible benefits of advice to consumers and small and medium-sized enterprises (SMEs).

The research also explores Australians' perceptions of professional advice, with a focus on the professional advice industry and professional advisers, such as accountants, financial advisers, tax agents and mortgage brokers.

Methodology

This report has been prepared based on three avenues of research:

- qualitative interviews of Australian individuals and couples
- quantitative survey of Australians over the age of 18
- macroeconomic modelling of the Australian economy based on primary and secondary data

Qualitative Interviews

The research was conducted over the course of two and a half weeks. Due to the COVID-19 pandemic, face-to-face focus groups were not an option. As a result, 20 phone interviews with individuals and couples were conducted over the period between April 23 and May 9. Each interview lasted approximately 45 to 60 minutes. Interviewees were compensated with a \$150 online gift voucher for their time. The interviews were transcribed for analysis purposes. Responses have been anonymised for this report.

Quantitative Survey

The survey was developed by CoreData in conjunction with CPA Australia and sent to CoreData's proprietary panel of Australian consumers and SMEs aged 18 and older. For the purposes of the survey, SMEs are defined as a self-employed person or a business owner in a business with less than \$10 million in annual turnover. The survey was in field between 1 June and 17 June 2020. There were 1,244 complete responses from Consumers and 815 complete responses from SMEs.

Macroeconomic Modelling

The macroeconomic model was developed by Dr Yiyuan (Edward) Xie from the School of Economics, UNSW with consultation from CoreData and CPA Australia. To aggregate the economic benefit of properly implemented professional advice, a lifelong income model was used. This was used to characterise the welfare gain at different stages in an individual's lifetime. A utility-based economic model was used to measure risk as a dollar value.

The macroeconomic model measures income risk now and in a scenario where professional advice is properly implemented. The model shows that professional advice provides a reduction in income risk. The gap between these two figures is determined as a dollar value to articulate the value of the welfare improvement that professional advice can provide.

The macroeconomic model uses 2016 ABS census data and assumes a static, competitive equilibrium economic model, where: information is perfect; everyone is rational; there is undistorted pricing; market clearing occurs.

The key variable for analysis is personal income which includes all tax, superannuation contributions, salary sacrifice, automatic deductions, interest, dividends, and capital gains.

Research conducted by:

CORE DATA

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