**Financial Advice and Financial Resilience: An Australian Perspective**

Improving financial decision-making of individuals to promote financial resilience is a difficult challenge. One reason is that the available financial resources (ie incomes) of many are too low to make financial resilience feasible, let alone pay for financial advice. Another is that behavioural biases and low financial literacy put detailed personal financial planning low on the priority list. And for those with financial flexibility and resources getting good professional advice can, as Australian experience (and that elsewhere) shows, be problematic.

In thinking about these challenges, it is worthwhile to note the differences and connections between data, information, and advice. Modern technology provides the capability to collect large amounts of data about an individual’s financial (and other) characteristics. This is potentially of significant value to both the collector and the individual, not to mention other commercial entities. But the value can be greatly enhanced when data from disparate sources can be combined and made easily accessible and useable, providing information which can improve knowledge and decision making. The recent Australian Financial System Inquiry recognised this in framing recommendations on data collection and sharing.

But for many individuals, availability of information will not be sufficient to lead to improved financial decision making. Assistance, in some form, will be needed. One, extreme, response is compulsion, such as occurs as part of Australia’s retirement incomes policy. There, mandatory employer superannuation contributions (currently 9.5 percent of wages) are made into individual accumulation accounts provided by institutional superannuation funds (or self managed funds). The current debate in Australia about how the allocation of new employees to different funds is made (currently largely determined by provisions of industrial relations agreements) indicates both the political sensitivity and market-share consequences which need to be considered in any mandatory system.

Mandating some level of long term retirement savings requirement can be motivated by appeal to behavioural biases, and by the existence of a government funded “safety net” in the form of the universal (but means-tested) age pension, which lead to private under-provision for retirement. But to apply those arguments to shorter term personal financial planning decisions seems a step too far, particularly given the diversity of personal financial circumstances and needs.

Here, “nudges” or “shoves” have more appeal, and particularly so if they take the form of removing undesirable distortions created by the existing tax system or other regulatory features. One such is the taxation of nominal rather than real (inflation adjusted) interest rates. Even if savings behaviour is not responsive to that distortion, it adversely affects after-tax returns and thus the ability to accumulate wealth in low risk savings products. In the current low- inflation, low interest-rate, world, this may not be seen as a significant issue – but the minimal impact on current tax revenue means that this is the ideal time politically to make such long-run beneficial changes.

Compulsion and nudges go part of the way, but those individuals with a degree of financial flexibility (from surplus current income, accumulated wealth or borrowing capacity) will generally want assistance at some times with financial planning and decision-making. But for most, the required advice is fairly basic. In Australia, at least, it goes along the lines of “pay off the housing mortgage, contribute (if funds available) to tax-advantaged superannuation savings, only make risky investments with money you can afford to lose, don’t borrow excessively, invest lump sum retirement savings receipts with a view to achieving an adequate income stream for life”.

All fairly basic but, of course, the devil is in the detail. For example, how do individuals decide at retirement on how to best allocate their savings to deal with longevity and other risks? The Australian Financial System Inquiry approached this by recommending that superannuation funds “nudge” (but not default) their members into “comprehensive income products for retirement” which have been preselected as being suitable for member characteristics, and which incorporate some longevity risk protection.

That approach also avoids, to some degree, the danger of exposing new retirees with now discretionary wealth to the dangers of inappropriate advice – where Australian experience suggests there have been many devils! Conflicted incentives and low levels of apparent expertise of advisers have driven a set of legislative reforms (known as “Future of Financial Advice FOFA”) aimed at improving financial consumer outcomes. They include enhanced educational requirements for advisors, remuneration structure constraints (on commissions rather than up-front fees), improved information for customers.

The outcomes of those changes are yet to be seen, but skirt around the fundamental dilemma in financial advice. Except for the very well off (who arguably can look after themselves) substantial financial advice is a service required on a (highly) intermittent basis. It is not, unfortunately, like dealing with a trusted local doctor, whose future income is not directly dependent on provision of advice. Nor can one be comfortable that advice from a regular supplier of financial services such as a bank is not influenced by staff incentives to “sell” more in-house products.

How then does an individual identify which possible adviser to use, and how much, and in what form, to pay for advice? Particularly so when financial advice is arguably a “credence” good – one where the quality is not discoverable until much later, if ever. Even the development of comparison/evaluation sites giving ratings of advisers face the problem that realisation (and hopefully, well-informed opinions) of advice outcomes may be many years delayed.

“Robo advice” holds out hope for low cost general financial advice, where individuals may be willing to pay up-front fees which mitigate the adverse effects of the operator being remunerated by commissions or through links to financial product providers. Use of Robo-advice for more specific personal financial advice seems more problematic cost-wise, but this would be aided by the development and integration of relevant data sets about individual characteristics to which the customer could grant access.

Improved data and dissemination of financial information to assist personal financial decision making and planning is undoubtedly part of the path towards better consumer outcomes including better and cheaper advice. The big challenge lies in ensuring that adviser incentives are aligned with customer needs, and that expertise is appropriate for the type of advice being provided.

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