Call for banks to pay advice ‘exit fee’ and subsidise adviser levy

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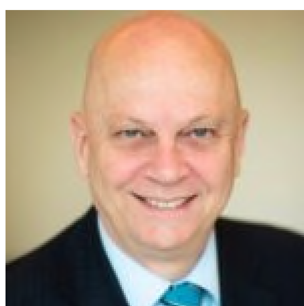
The banks that left the advice industry in the wake of the Hayne Royal Commission should pay an “exit fee” to cover the cost of ongoing regulatory action, according to The Adviser Association chief executive Neil MacDonald, which could then be used to subsidise the increasing annual adviser levy.

Macdonald, whose TAA network represents roughly 1000 advisers across AMP’s AMP Financial Planning and Hillross dealer groups, suggests charging banks $7,400 per adviser – roughly three times the current annual adviser levy – based on their numbers when the royal commission final report was released in early 2019.

The move would be an appropriate way to address the injustice of forcing non-bank advisers to pay for regulatory costs brought about by the banks, Macdonald says.

“The advisers remaining in the industry are those who are committed to the profession, who are committed to their clients and who are building strong practices that can withstand the changing times,” Macdonald says. “Expecting these advisers and their clients to just keep paying ever-increasing costs for the sins of the past, largely committed by the big end of town, is unconscionable.”



Neil Macdonald

The latest adviser levy came in at $1500 per licensee plus $2,426 per adviser, with the adviser portion rising from $1,142 in FY18/19 and $934 in FY17/18 – an increase of 160 per cent in two years.

ASIC acknowledged that a “significant part” of the increasing levy was attributable to enforcement work stemming from the royal commission, “and contraventions of the financial services laws by the major banks, superannuation trustees and insurers”.

In early March industry stakeholders railed against the “kick in the guts” levy increase.

“By and large the ones leaving the advice industry have probably contributed more to the regulatory costs than the ones who are remaining,” commented The Fold Legal solicitor Simon Carrodus. “It’s generally giant institutions and major licensees that have broken the rules, but the levy isn’t being funded by them.”

Forcing the banks to pay their share of the industry funding model for regulation would be a way to redress this imbalance, Macdonald believes.

“If the government were to levy the exiting banks it would then have the revenue to implement that immediately and subsidise the current levy for advisers,” he says.

The idea may have support in other corners of the industry; Association of Financial Advisers general manager of policy and professionalism Phil Anderson says the need to fix the methodology for the industry funding model is “apparent”.

“We need to find a better way,” Anderson adds. “An exit levy is one option that should be considered.”

The bill, please

If the institutional “exit fee” were imposed the cost to the banks would be tiny relative to balance sheets.

CBA, for example, had 1,414 advisers across five dealer groups in February 2019, which would equate to $10.4M. The nation’s biggest bank reported a net profit of $7.3B in the 2020 financial year.

NAB’s advice network of 1,274 advisers – not counting JB Were, which they retained – would give them a bill of $9.4M after a profit of $2.6B, while Westpac/BT’s 632 advisers would cost $4.6M after a profit of $2.3B.

While AMP are still in the advice game, its declining advice network – which could have negative value – *was* offered as part of the original Ares Management deal, signalling that it, too, has considered leaving the advice industry. AMP was also front and centre at the royal commission and has been heavily involved in ASIC’s regulatory activities.

The two AMP networks Macdonald’s association represents had 1609 in February 2019, but only 1000 remain.

If AMP were to pay its share for these 609 advisers the bill would come to $4.5 million.

Disproportionate effects

While addressing the specific costs is important, Macdonald believes fixing the industry funding model itself would have more value.

“It’s more important to look at the process than the specifics,” he says.

The industry funding model was brought in by Treasury in 2018 after two rounds of public consultation, both of which saw stakeholders express concern about the disproportionate effect it could have on small practitioners.

“Feedback from our members who are small licensee businesses state that ASIC rarely engage with them,” noted the Financial Planning Association in its 2015 submission. “The regulator’s focus is typically on larger licensees.”

According to Macdonald, Treasury should have paid more attention to the warnings.

“We believe Treasury needs to take another look at this model and review the downstream impact of the levy on advisers and their clients,” he says.