SUPER SWITCHING POLICY

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THE AIM OF THIS POLICY
The aim of this policy is to outline your obligations in relation to providing super switching advice.

WHO THIS POLICY APPLIES TO
This policy applies to all Representatives of your Licensee.

WHAT THIS POLICY COVERS
This policy covers:
- Superannuation Switching.
- Super switching guidelines.
- Self-Managed Super Fund
- Appendix 1: Examples of poor 'reasonable basis' for switching

ADVISER REQUIREMENTS
Each Requirement in This Policy Must Be Followed
This policy comprises a number of requirements and each must be followed.

Professional Indemnity
You should be aware of your requirements under your Licensee's Professional Indemnity Insurance policy.

SUPERANNUATION SWITCHING
Advice provided on superannuation products has been, and will continue to be, an important focus for the Government, ASIC and consumer groups.

To assist representatives in meeting regulatory requirements and the expectations of these groups, Insight Investments provide the following tools:
- Super Switching Guidelines – outlined below.
- Product Research Template – a standard template to help you collect details from a client's existing fund. Available on the drive under Insight Investments > Templates > Insight Forms.
- Where relevant, adviser will need to complete the following checklists to ensure they have met the policy guidelines:
    - Super Replacement Checklist
    - Insurance Replacement Checklist
    - Investment Replacement Checklist
- Examples of a poor 'reasonable basis for switching' – Refer to appendix below

SUPER SWITCHING GUIDELINES
Choice, and advice provided in relation to 'Choice', has been, and will continue to be, an important focus for the government, regulator and consumer groups. This document provides guidance on the action you are expected to take before recommending a switch in superannuation products.

General Obligations

Legal and compliance obligations have not changed as a result of the introduction of Choice. You must still meet the same basic requirements, including:

1. Determining with the client the scope of the advice you will be providing.
2. Gathering sufficient information from the client to understand their objectives, needs and circumstances relevant to the scope of advice.
3. Providing advice that will meet those objectives, needs and circumstances and having a reasonable basis for the advice provided.
4. Documenting the advice in a Statement of Advice (SoA) with the appropriate disclosures and warnings.

There are however, some practical implications for you to consider when providing advice in relation to 'Choice'. This guide provides an overview of these factors.

Overriding requirement

When considering a switch, you will generally need to compare the features and benefits of both the existing and the recommended product. ASIC have made a number of statements in this regard:

- 'Financial advisers may only want to talk about the fund that they are recommending but the ***law dictates that they make reasonable efforts to understand the benefits of the client's existing fund***.'
- 'Super switching advice will generally be inappropriate if the adviser knew (or should have known) that the overall benefits likely to result from the 'to' fund would be lower than under the 'from' fund, unless that loss of benefits would be overridden by overall cost savings.'

Limiting the scope of advice

Given the view expressed by ASIC it is only possible to limit the scope of your advice where a client must exit their existing product and it should be noted that even in this case it is still necessary to consider lost benefits such as insurance.

It is not possible to limit the scope of your advice even where you are asked to do so by the client.

Cost

The cost of superannuation products will be an important consideration for most clients. There has been, and will continue to be, considerable publicity around the impact of fees on account balances over the long term.

Exit Fees

Exit fees or penalties can be significant on some older superannuation products. In some cases, they can be over 20% of the account balance.

- Exit fees should be identified and taken into consideration when assessing the overall benefits of the switch. Unless there are significant problems with the existing fund, significant exit fees would make it unlikely that a switch recommendation can be made.
- Exit fees should be disclosed in the Recommended Products section of the SoA.

Ongoing fee comparison

The ongoing fees payable on the existing fund must be compared to the fees payable on the recommended fund. The comparison should include the total cost to the client of each product.

- The standard ongoing fee disclosure table should be provided for both the existing fund and the replacement fund.
- Where fees are paid or subsidised by an employer (or another party) this should be taken into consideration in the disclosure of fees.
- Consideration should also be given, in both the existing and replacement fund, to arrangements where clients may receive a discount on the standard fees disclosed in the PDS due to their inclusion in a group scheme, or for other reasons such as rebating of fees.
- There is no restriction to only allow the cheaper fund to be recommended***. A more expensive fund may be recommended provided the additional features and benefits meet the needs and objectives of the client and outweigh the additional cost.***

Entry Fees

Entry fees are now rarely charged by product providers but they are often charged in relation to the advice you provide.

- Entry fees should be included in your consideration.

Insurance

It is common for insurance cover to be provided with superannuation products. With the introduction of choice and the requirement to have a minimum level of insurance with the default fund, there will be an increasing number of clients in this situation.

Cost

Where insurance is attached to the superannuation product it may have been negotiated on a group basis at a very good rate, provided at no additional cost or paid for by the employer. The cost can vary greatly between providers.

- The cost of insurance must be considered for both the existing and recommended product.

Features

The level of cover and the features provided can also vary greatly between providers.

- The level of cover and features of the insurance, as well as any options that can be added and the cost of such options, must be considered for both the existing and recommended product.
- Although the cover may be low cost or provided free, consideration should be given to the level of cover and the features provided. If the cover does not meet the client’s needs and circumstances and cannot be extended, then the attached insurance may not be of benefit to the client regardless of the cost.
- Different insurance cover can also have different underwriting criteria on application and these must be considered for the recommended product in light of the client's personal circumstances.

Automatic Acceptance

The insurance attached to the superannuation may have been provided through auto acceptance or it may have been in place for a number of years.

- The recommendation to replace the superannuation product should be subject to insurance being accepted by the new provider and the terms of that cover. ***The existing insurance cover should be maintained until the new insurance cover is in place.***

Authorisation

To advise clients on these insurance issues you do need to be competent to provide insurance advice and you will be required to hold an authorisation to provide insurance advice.

- If you do not have such an authorisation you will only be able to advise a client where they have clearly stated up front that they do not require the insurance cover.
- If the client is unsure whether they require the insurance cover or if they want to replace the insurance cover then you will not be able to advise the client on their superannuation.

Investment Performance

The performance of individual products is difficult to predict and care should be taken when assessing past performance. Statements about the ability of the recommended product to outperform the existing product (or a benchmark) should only be made where there is a reasonable basis for the statement.

- Where you compare historical performance as a basis for your recommendation, ***a minimum of 5-years performance figures should be used***.
- Comparison should only be made between products where they have consistent objectives and asset allocations (only compare apples with apples). Where this is not the case, comparison should be against the appropriate benchmark portfolio.
- Performance is not always calculated consistently. Ensure the performance figures you use have the same basis (is the calculation before or after tax and fees).
- Ordinarily, ***performance should not be used as the basis for a switch recommendation***. It should only be used where the existing product has clearly underperformed the benchmark over a 5-year period, you have good reason to believe it will underperform the benchmark or in rare cases where you believe the replacement product will outperform the benchmark over the long term.
- In some cases, the switching of products may lead to time out of the market as the funds from the existing product are redeemed or the funds for the replacement products are redeemed. This will not usually impact your recommendation but you must warn the client in the Recommended Product section of the SoA.

Investment Options

Platforms typically provide a wider range of investment options and greater flexibility to construct tailored portfolio's compared to other superannuation products. This can provide you with better tools for portfolio blending and implementing tactical asset allocations thereby increasing investment performance.

Prior to making this part of your basis for advice, ***you should take care to assess whether you will make use of these features for your client and whether a greater number of investment options is of benefit to your client***. Note also the points above in relation to investment performance.

- Compare the number of investment options available under both the existing and replacement products and assess whether the client will benefit from a larger number of investment options.

Technical Features

Technical product features may also form part of the basis for the advice. Features may include the availability of different contribution types (such as spouse contributions), the option to make binding death nominations or access to post-retirement products so the client can move from super to pension phase without realising assets

- Technical product features should be considered where they are appropriate to the needs or circumstances of the client.

Other Considerations

With the vast range of products available, there are many other features and benefits to consider. These could include the availability of on-line reporting for clients, access to ancillary benefits such as lower cost banking, credit cards and health insurance, free or subsidised financial planning advice or an employer contributing above the superannuation guarantee level where a particular product is used.

Awards and Ratings

Assessments made by third parties to award or rate product providers will reflect an overall view of many of the issues raised above.

- Consideration should be given to the awards or ratings provided to both the existing and replacement product when assessing their features and benefits.

Consolidation of Funds

Where you are consolidating a number of funds for a client, the same requirements apply to the advice you provide and the same considerations must be given to each fund being consolidated.

Self-Managed Super Funds

This guide does not address the requirements around advice to establish SMSF. There have however been a couple of important statements made by ASIC leading up to 'Choice' which should be recognised.

Low-value SMSFs

'We will be looking for cases where SMSFs have been recommended to people with insufficient superannuation savings. While we will always look at the individual circumstances of each case, as a rough guide, we regard an SMSF with a fund balance of less than $200,000 as being worth having a closer look.

Below around a $200,000 fund balance, it is generally accepted that an SMSF is not cost competitive with other available options for superannuation savings. Some people are willing to accept this on the basis that they prefer making their own investment decisions. However, advisers need to make sure that they are not misleading clients into thinking that an SMSF will always put them ahead on costs.

Additional Responsibilities as Trustee

ASIC have also highlighted the need for advisers to properly advise clients about ongoing costs and the time and skill needed to administer an SMSF. Advisers should only recommend the establishment of a SMSF where they are confident a client has the means to meet these additional responsibilities.

Change in Service Provider
Clients should be informed that the transfer to a SMSF will mean that services currently provided by product providers (e.g. account administration, account reporting features and account enquiries) will now be provided by their adviser.

Insurance
'It will also be critical to consider your client's need for appropriate and affordable insurance cover. Unless the SMSF trustees specifically take out insurance for fund members, there will be no cover. Experience shows that SMSF insurance is generally more expensive and harder to get than in larger funds.'

Appendix: Examples of poor 'reasonable basis for switching'.

Example 1

<u>Needs & objectives</u>

You wish to consolidate your five super funds to simplify the administration and management of these investments.

<u>Reasonable basis</u>

Asgard allows you to consolidate your five superannuation funds to simplify the administration and management of your retirement benefits.

Is this a reasonable basis for a switch?

- *No. Although there is a basis for switching there is not a basis for using Asgard as the product for consolidation. Why is Asgard the preferred product for the client*

How could it be turned into a reasonable basis?

- *Pinpoint what the client wants in a superannuation product and set these out in the Needs and Objectives. Then show how Asgard satisfies these better than the other products.*

Example 2

<u>Needs & objectives</u>

You wish to reduce the fees you pay on superannuation

<u>Reasonable basis</u>

I recommend you consolidate your 4 super funds to the Asgard product. Consolidating super in Asgard can reduce the fees you pay as the % rate you pay is reduced as your balance increases. Asgard also offers family discounts and negotiates wholesale rates with investment managers that they use to further reduce the fees you pay.

Is this a reasonable basis for a switch?

- *No. Although the information is factually correct it is possible that the fees in Asgard are higher than the existing products.*

How could it be turned into a reasonable basis?

- *Provide a fee comparison showing Asgard fees versus the other products.*

Example 3

<u>Needs & objectives</u>

You only got 7% on your super fund last year whereas your neighbour got 16%. You want a higher return.

<u>Reasonable basis</u>

As per the 'Your risk tolerance and asset allocation' section we have agreed that a Growth style portfolio is more appropriate for you as it is likely to deliver higher returns over the long term compared to your current Conservative portfolio. I have recommended you switch from the Industry Fund to the Growth option under Asgard SMA – Funds.

Is this a reasonable basis for a switch?

- *No. The 7% may just be a consequence of the asset allocation and it may be possible to simply switch up to a higher asset allocation (eg their Growth option) in the existing fund.*

How could it be turned into a reasonable basis?

- *Switching based on performance is difficult especially where model portfolios are being compared. You would need to demonstrate long term negative performance or poor ratings from research providers.*

Example 4

Needs & objectives

Long term wealth creation

Reasonable basis

I recommend you switch to Asgard and use the Growth portfolio selected by our practice. You will achieve better returns than you are getting in your existing fund. Last year we made a return for our clients in this portfolio of 25% through active management of asset allocations and investments.

Is this a reasonable basis for a switch?

- *No. We would always advise against you justifying a switch based on your ability to outperform an existing fund. One year returns should never be used and a warning on past performance must be included.*

How could it be turned into a reasonable basis?

- *It may be possible to justify where the existing fund has long term underperformance however outperformance should not be used.*

Example 5

Needs & objectives

You wish to receive ongoing advice services from me.

Reasonable basis

You find superannuation complicated and you are concerned that you may be missing out on tax savings and better returns if you don't receive ongoing advice.
I have recommended Asgard as I will be able to provide you with ongoing advice services if you use Asgard.

Is this a reasonable basis for a switch?

- *No. It is not clear what ongoing advice services are required and why Asgard can provide these services but the existing fund cannot. Eg if the advice is simply strategic (eg salary sacrifice, co-contributions, asset allocation selection) then it can often be provided with the existing product and there is no need to switch on this basis.*

How could it be turned into a reasonable basis?

- *Pinpoint the actual advice services which would be of use to the client and set these out in the client Needs and Objectives rather than the general need here. Then show how the recommended product satisfies them whereas the existing product does not.*

Example 6

Needs & objectives

Superannuation fund where you can receive ongoing advice services from a financial planner

<u>Reasonable basis</u>
Your existing fund does not appear on the approved product list of my dealer group and I therefore cannot provide advice to you while you are invested in this product. I have recommended Asgard as it is my preferred platform and a product that I am comfortable with and use regularly.

Is this a reasonable basis for a switch?

- *No. As above you could still provide strategic advice regardless of the product being used. You could also source research on the existing product and seek special approval from your dealer group to use the existing product.*

How could it be turned into a reasonable basis?

- *This is a good discussion point which hopefully leads into the next example.*

Example 7
<u>Needs & objectives</u>
Superannuation fund where you can receive ongoing advice services from a financial planner

<u>Reasonable basis</u>
I have only been able to find limited information on your existing fund. The product provider has not responded to my calls and faxes and it is not included in the product research provided by my dealer group. As I have a limited understanding of the benefits and features of your existing product I recommend you switch to Asgard. I have recommended Asgard as it is my preferred platform and a product that I am comfortable with and use regularly.

Is this a reasonable basis for a switch?

- *Possibly. As above you could still provide strategic advice regardless of the product being used. If however the advice was required on the product and you couldn't provide it, it would be arguable that this is reason enough to switch. Need to be careful with this one and really exhaust opportunities to collect information on the product. There also needs to be strong warnings associated with the advice. See also the good example.*

Important Note: It is expected that this reason will only be used in rare circumstances. Where it is used as a basis for advice you are required to email your local Compliance Manager to inform them of the fund involved and the action taken to obtain details.

Example 8
<u>Needs & objectives</u>
Superannuation fund where you can receive ongoing advice services from a financial planner

<u>Reasonable basis</u>
I have recommended Asgard as it is my preferred platform and a product that I am comfortable with and use regularly. It takes me less time to access information on your investments and how they are performing. It also takes me less time to make changes to your investments where required.

Is this a reasonable basis for a switch?

- *No. What is in it for the client? Helps the adviser but no benefit to client.*

How could it be turned into a reasonable basis?

- *Show that overall costs in Asgard would be cheaper when you combine product and advice costs on both sides. Do not provide comparison on product alone and strip out adviser commission.*
- *It is acceptable to have a higher ongoing advice cost for products you are not familiar with. The higher cost just needs to be justifiable, reasonable and explained in the SoA.*

Example 9

<u>Needs & objectives</u>

The ability to pay for any ongoing advice services from your investments rather than directly from your pocket

<u>Reasonable basis</u>

You would prefer to pay for my services through your superannuation account rather than directly from your pocket. I can do this through Asgard however it is not possible through Industry Fund.

Is this a reasonable basis for a switch?

- *Possibly, however if the client is paying twice as much for Asgard versus their existing fund then they might be happier to simply pay out of their pocket.*

How could it be turned into a reasonable basis?

- *Always make reference to any additional cost difference with this basis. State the trade off is $200 out of your pocket for existing fund or $500 out of your super balance for Asgard. You are paying an extra $300 for the privilege of paying this amount out of the product instead (would the client really want to do this).*

Example 10

<u>Needs & objectives</u>

Long term wealth creation

<u>Reasonable basis</u>

Diversification is an important strategy in long term wealth creation. I have recommended Asgard as it provides one of the largest investment menus in the market with the ability to invest in up to 300 different investments.

Is this a reasonable basis for a switch?

- *No. Most products will provide a level of choice to ensure diversification.*

How could it be turned into a reasonable basis?

- *Demonstrate a lack of choice in the existing product – eg if 3 or less portfolios to choose from. Will often be difficult to justify on diversification alone and you will need to identify needs or objectives of client which require greater investment choice (see good examples)*

Example 11

<u>Needs & objectives</u>

A super fund that will keep up with changes to legislation, superannuation rules and provides you with flexibility of options, features and benefits to create long term wealth.

<u>Reasonable basis</u>

Asgard provides a wider range of features compared to your existing fund. For example, it has an auto rebalance facility, can accept spouse contributions and has a number of options when transitioning to retirement.

Is this a reasonable basis for a switch?

- *No. It is not clear that any of these features are actually required by the client.*

How could it be turned into a reasonable basis?

- *Pinpoint the actual features which would be of use to the client and set these out in the client Needs and Objectives rather than the general need here.*

Example 12

<u>Needs & objectives</u>

Your current planner is receiving a commission from Other Fund but you have not heard from them in 2 years

<u>Reasonable basis</u>

I recommend switching to Asgard as that will mean your current planner no longer receives a commission.

Is this a reasonable basis for a switch?

- *No. Could simply ask client to make you the adviser on the existing fund.*