

The Australian

ALL ORDS 4986.50	↑ 37.00 +0.75%	DJIA 11117.06	↑ 25.01 +0.23%	\$AUD / \$USD \$US0.9309	↓ 0.0007 -0.0751%	GOLD \$US1142.1	↑ \$US2.90 +0.26%
S&P/ASX 200 4961.90	↑ 36.10 +0.73%	S&P 500 1207.17	↑ 9.65 +0.81%	€EUR / \$USD \$US1.3420	↓ 0.0014 -0.1042%	OIL \$US83.5	↑ \$US1.65 +2.03%

Markets Open Markets Closed 1:09 PM 21/04/2010 AEST

ASX Find a broker
Enter ASX code or company name for the latest stock quotes information

Financial planning industry braces for reform

- Sara Rich
- From: The Australian
- April 21, 2010 12:00AM

ABOUT one in five working Australians have used a financial planner and that is only going to increase as the population ages.

It is estimated that by 2050, nearly 23 per cent of the population will be aged 65 and over, compared with 13.5 per cent today.

With research from the Association of Superannuation Funds of Australia suggesting nearly seven million Australians will retire with inadequate income, good financial advice is going to be more important than ever. However, the way it is delivered and paid for is going to be very different from today, and the changes are not that far away.

Three lengthy government reviews, Cooper (superannuation), Henry (tax) and Ripoll (financial services), will lead to new rules that affect the way financial planners interact with their clients.

It is likely that a fiduciary duty will be imposed, requiring planners to place their clients' interests ahead of their own or risk big penalties. Slater & Gordon lawyer Damian Scattini says that while there will always be people who try to get around the rules, a fiduciary duty could help prevent another Storm Financial.

Meanwhile, the move away from commissions paid by fund managers is having a big influence on the mix of products planners recommend. Investment Trends principal Mark Johnston says more and more planners are now talking about direct equities and exchange-traded funds with their clients. "The way their remuneration was structured made it very difficult to utilise these products," he said.

There is also considerable consolidation under way in the industry as the major players look to expand their distribution networks in the face of the trend away from commissions and towards tighter regulation.

The Australian Competition & Consumer Commission this week rejected National Australia Bank's \$14 billion takeover bid for Axa Asia Pacific. Had the deal gone through, five companies would have controlled 77 per cent of the retail superannuation market, compared with 71 per cent currently.

Citi analysts say it would have led to even more consolidation and could have made it hard for the ACCC to reject a hypothetical AMP-ANZ or Commonwealth Bank-AMP combination.

There are concerns over what further consolidation will do to competition, especially since it would only further concentrate the platform market, where 80 per cent of the investment money handled by financial planners go.

Platforms help planners manage their clients' portfolios by taking care of the administration hassles on a fairly cost-effective basis.

Westpac, the Commonwealth Bank and NAB have the highest market shares in terms of the number of planners using them as their main platform providers, according to financial services market researcher Investment Trends.

It is hoped economies of scale, combined with ongoing pressure from industry super funds and the public, will force platforms and fund managers to further reduce their fees.

Industry Super Network head David Whiteley says it could also make it easier for the industry to address, with the help of regulation, the conflicts of interest that can arise when fund managers own financial planning groups.

He says there is a clear mismatch of objectives when you have companies trying to maximise their profits out of the government's efforts to increase the adequacy of Australians' retirement savings.

"So how do you address that? A key part of that is the need to stop sales agents masquerading as providing independent financial advice," he says.

"If further consolidation in the finance sector makes that possible because it creates greater scale and innovation, then it is not necessarily a bad thing for competition."

The Ripoll inquiry, and to some extent the Cooper review, have focused on the commissions paid by fund managers to planners for investing clients' money with them.

MP Bernie Ripoll, head of the parliamentary joint committee on corporations and financial services, has recommended that the government consult with the industry in developing the most appropriate way to move away from commissions.

Jeremy Cooper, head of the Super System Review, wants advice provided to members in his proposed low-cost, no-frills "MySuper" option to be paid for on a fee-for-service basis, with no use of trailing commissions or ongoing payments.

In accepting that commissions inherently give rise to conflicts of interest, many financial planning groups are introducing asset-based fees, which are paid for by the client and based on a percentage of their assets under management.

However, in most cases they are still ongoing payments. "We think it is the same thing," Mr Whiteley said. "It continues to come out and it goes up every year on the assumption investments don't go backwards."

While clients can "turn off" asset-based fees once they stop receiving advice, Mr Whiteley is concerned that due to inertia, many super members will not even realise they are paying the fees each year.

However, research by Rice Warner Actuaries for Industry Super Network shows that if the government banned commissions and asset-based fees, people may perceive the upfront cost of holistic advice to be too high, even though it is expected to be the same or lower overall.

"Increased transparency may result in a perception of higher cost, potentially resulting in reduced demand for comprehensive advice," the report says.

"Increasingly, many new clients will be satisfied with simple pieces of advice targeted to their needs at different points of their lifecycle."

This could include advice provided by super funds via the internet or through call centres.

It is something the Financial Planning Association is already thinking about.

"We need to find better ways to articulate what the financial planning value proposition is and, frankly, to also price it differently because what is quite clear from the reviews is that financial planning at the moment tends to not be able to identify the pricing benefits relative to different sorts of clients," said FPA acting chief executive Deen Sanders.

"So I think what we will see in the future is a much wider range of professional service offerings based on the particular needs of individual clients."

Rice Warner reckons if this happens the number of people receiving financial advice will more than double by 2024 and that the number of low- to middle-income earners using planners will drastically increase.

Ads By Google

- **Cash Investment Account**
Take The Safe Option On Balances Over \$10,000 With CBA. Apply Online
www.CommBank.com.au
- **ASIC Short Sell Reporting**
Simple and Effective Short Selling Reporting Solution via FIX to ASIC
pac-invest.com.au/asic.php
- **5 Hot Stocks for 2010**
Free Report: 5 Unique Stock Picks That Could Make You 500%...Or More!
www.taipanpublishinggroup.com

More related coverage

- **Too soft on banks** *Herald Sun, 24 Nov 2009*
- **Commissions move wins applause** *The Australian, 24 Nov 2009*
- **MP slams financial adviser commissions** *Adelaide Now, 19 Nov 2009*
- **Rebranding won't help planners** *The Australian, 7 Sep 2009*
- **AMP to preempt financial planner fees** *Herald Sun, 24 Nov 2009*
- **Planners shifting to fees** *The Australian, 24 Nov 2009*

More related coverage

Related Searches

- **Richard Klipin said,**
- **John Brogden,**
- **Commonwealth Bank,**
- **Great Southern,**
- **David Whiteley,**
- **Federal Government,**

- **Financial Planning Association**

Copyright 2010 News Limited. All times AEST (GMT + 10).

All times are EST. © MarketWatch, Inc. 2008. All rights reserved. Subject to the **Terms of Use**. Designed and powered by **Dow Jones Client Solutions**. MarketWatch, the MarketWatch logo, BigCharts and the BigCharts logo are registered trademarks of MarketWatch, Inc. Dow Jones is the registered trademark of Dow Jones & Company, Inc. Intraday data delayed at least 15 minutes. "Intraday data is provided by **Interactive Data Real Time Services** and subject to the **Term of Use**." FXQuoteTM provided by GTIS, an Interactive Data Company "Historical and current end-of-day data provided by **Interactive Data Pricing and Reference Data**". FTSE (Footsie) is a trade mark of the London Stock Exchange and the Financial Times and is used by FTSE International under license.