

Financial Standard

www.financialstandard.com.au

Industry prepares for new advice era

Tuesday, 27 April 2010 12:05pm

The government's proposed reforms to change the way planners charge for advice will spur the industry's long-term growth, but at the cost of serious headaches and profits during the adjustment period.

The minister for financial services, superannuation and corporate law, Chris Bowen, unveiled this week radical proposals to reform the planning industry following the findings of the Ripoll Inquiry on the collapse of failed property group Westpoint and financial planning firm Storm Financial.

Central to the reforms is the ban on conflicted remuneration, such as trail commissions, volume rebates and bonuses, and shelf fees paid to platforms.

Instead, the government proposes advisers charge clients a percentage of the assets they manage (called asset-based fees), a practice that is already common to many planning firms.

Besides the commissions ban, the government also proposed two other key reforms: a statutory fiduciary duty for financial advisers and the introduction of an 'adviser charging regime' where the public must opt-in to paying for advice annually (as opposed to the current opt-out model).

Impact of dropping commissions

The commissions ban will affect many planners as new figures from the Investment Trends 2009 Planner Business Model Report found 56 per cent of 1,401 planners surveyed source their revenue from upfront and trailing commissions.

While that is the case, Mark Johnston, principal at Investment Trends, noted that asset-based fee for service has been the fastest growing area over the last few years, ahead of any legislation.

"The proportion of planner revenue coming from fixed rate or hourly rate arrangements has only crept upwards since 2006, while the proportion from asset based fee for service models has risen by more than 60 per cent over this time."

According to the Investment Trends research, the use of asset-based fee for service was skewed towards planners with high funds under advice (FUA). Planners with an FUA over \$40 million got an average of 35 per cent of their revenue from asset-based fee for service charging, compared to an average of 17 per cent among planners with FUA less than \$10 million.

Johnston also argues that certain dealer groups and planners using certain platforms were "much further ahead" in transitioning to a non-commission model.

Platforms used by advisers deriving the lowest proportion of revenue from commissions include MasterKey Custom (22 per cent of revenue from commissions), followed by Asgard eWrap (38 per cent) and FirstWrap (44 per cent).

Statutory fiduciary duty

The call for legislated fiduciary duty will affect Approved Products Lists (APLs) as the industry now has to justify why certain products are included and some aren't. On the upside, it could theoretically broaden choice to more products outside platforms and benefit planners who would want to use fund managers or products that may not necessarily be on platforms because they don't pay shelf fees or are non-bank products.

However, Brisbane-based planner Tim Ross from Ross Financial Group said that many planners already exercise fiduciary duty anyway and that, of the 700 clients serviced by the firm, none have called to ask about the minister's reforms. "There was lots of [media] talk about financial planners getting kickbacks ... we are not getting kickbacks," he said, adding that none of their clients were ever on any of the products that collapsed, which spurred the planning reforms in the first place.

Ross said that where the reforms could affect their business is that it could increase the cost of advice, due to compliance issues for the smaller independent planning outfits and, on a separate issue, it could also affect the licensees of dealer groups, most of which rely on volume rebates as a source of revenue.

Industry feedback

The ultimate winners are the consumers, with the reforms designed to improve transparency around how much is being paid for advice and whether that advice is conflicted or not. Industry bodies including IFSA, SPAA, ISN, FPA and the AFA have welcomed the reforms while financial planning groups MLC and AMP have voiced their support.

However, Ross points out they are still awaiting details on how these reforms will be put into practice and said the jury is still out on whether the changes will encourage consumers, who have never accessed professional advice before, to seek a financial planner.

The proposals are set to take effect on July 2012, if they become law, and will apply to all financial products (managed investment schemes, superannuation and margin loans), but "initially" excluding risk insurance.

The last time the government introduced massive reforms that had many contentious points was the choice legislation, which took ten years from proposal stage to adoption.

Michelle Baltazar and Ruth Liew

This story was found at: <http://www.financialstandard.com.au/news/view/28637>

Printed: Tuesday, 27 April 2010 2:25pm