



What future for volume rebates?

Follow the money. And if you follow the money you'll discover that with or without Government intervention, most Australian financial planners have positioned themselves to endure in an industry without commissions.

That is the bottom line of data generated by Colonial First State's FirstChoice, which reveals that most planner-originated fund flows are now being directed towards that part of the platform that does not generate commissions.

According to the data, the ratio of flows is about 60/40 – something that tends to underscore the accuracy of research published by both Wealth Insights and Investment Trends suggesting that most financial planners believe the days of being able to charge commissions are numbered and that it is time to accept the new reality.

All of this should emphasise to the Federal Government that the financial planning industry is capable of charting its own course away from the tradition of commission-based remuneration and that there is no need for an unduly draconian approach.

The problem for the financial planning industry, however, is that its credibility will be tested if it cannot ultimately deliver 100 per cent adherence to a fee-for-service

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regime post 2012 or if elements of the industry try to use loopholes.

The industry superannuation funds are continuing to claim that the financial planning industry cannot be trusted where commissions are concerned and that the Government will ultimately need to legislate to ensure their removal.

The emphasis of the industry funds'

campaign is no longer individual planners. The focus is now directed further up the food chain to the volume rebates paid to financial planning dealer groups, with the implication being that these represent product payments by another name.

Over recent months, executives within the financial services industry have held discussions with Treasury officials on how best to deal with the regime that will flow from the Future of Financial Advice reforms and it is clear that volume rebates cannot and will not escape attention.

While there appears to be recognition that volume rebates are fundamental to the commercial underpinnings of many dealer groups, there is also a concern that those rebates could be perceived as influencing the advice being provided by individual planners.

If the financial planning industry is to build on the credibility it has garnered around its self-directed embrace of fee-for-service it must also address the questions that continue to hang over the mechanisms which make up volume rebates.

An industry answer to the volume rebates question will undoubtedly be more palatable than a formula imposed by legislators and regulators.

By Mike Taylor