

The Australian

Investors and the plans for better advice

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The master plan for the future delivery of financial advice has been mapped out. There is a commendable focus on better protection and stronger engagement for investors in the package of reforms announced this week by the Assistant Treasurer and Minister for Financial Services and Superannuation, Bill Shorten. This package of reforms will define both how investors perceive, value and pay for advice services and how the next generation of advisers will be licensed and remunerated.

There are four key elements to the reforms announced by Shorten:

- a requirement for clients of financial advisers to sign up every two years to continue to receive ongoing advice services and pay accordingly;
- a ban on all commissions on risk insurance inside superannuation;
- a ban on volume-based payments to dealer groups and advisers
- the ability to offer an expanded range of limited advice services

These are significant reforms that flow from the various government and parliamentary reviews – notably the parliamentary inquiry chaired by Bernie Ripoll and the review of superannuation chaired by Jeremy Cooper.

For investors there is much to be optimistic about – not least of all the ban on up-front and trailing commissions that was announced back in 2010 and will take effect from July 1, 2013.

Good financial advice is both valuable and worth paying for. For better or worse the industry evolved from life insurance commission payment structures with the result that many investors either did not understand the real value of the advice or the true cost.

The requirement of advisers to get clients to agree to pay fees every two years reverses the behavioral impact of inertia. At the moment investor inertia works to provide advisers with passive trail commission income. The opt in provision will put the onus on advisers to convince clients of the value of signing up to the service again.

That is not to discount the impact on well established advice businesses but hard to defend when Investment Trends research showed that some advisers did not have a current address for 25% of their clients having trail commissions deducted from their portfolios.

The ban on commissions on risk insurance in super seems to have taken some by surprise but is consistent with the Cooper review recommendations.

The ban on volume-based payments is potentially the most sweeping of the planned reforms. At the heart of this recommendation is to remove payments and remuneration structures that do or have the potential to distort/influence an adviser's recommendations.

This is a critical and fundamental reform of past industry practice that potentially delivers the most tangible benefits to investors while over the longer term could see financial planning achieve the professional status in the community it has long been aspiring to.

The expansion or ability to offer targeted “scaled” advice services effectively opens new horizons for both super funds and financial advice businesses. Financial planners have long argued that under the current regulatory

burden it is virtually impossible to service younger investors with low levels of assets. This piece of reform holds out the promise of a wider range of segmented services able to be tailored to specific client needs and requirements at that time of their life and importantly with different charging levels.

For financial planners this is big news because it impacts their livelihood. For investors it is likely to be struggling to get their attention because it is still two years away from kicking in and it doesn't apply to existing arrangements so may take even longer before it impacts. The increase in super guarantee contribution to 12% is the bigger headline.

As always though having a plan – even one enshrined in legislation – does not guarantee the outcomes. The devil is always in the detail - which will be keenly awaited later this year when the draft legislation is released for public comment.

Planning businesses will evolve in the face of regulatory change – that is inevitable and the nature of a capitalist system – and unintended consequences are likely to emerge as organisations seek out a competitive advantage. For example volume-based rebate payments between fund managers and platforms will continue and that has the potential to influence the future shape of planning businesses.

For investors the reforms hold out the promise of making fees and payments between the various parties in the value chain more transparent and comparable while the introduction of a statutory duty on advisers to act in a client's best interests should strengthen investor protection and help build confidence in the industry.

But as always the best protection comes with investors understanding what they are investing in, the risks involved and keeping the costs as low as possible.

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