

The Australian

The right financial advice is all a matter of trust

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WHAT hope is there of getting unconflicted financial advice when there are apparently only seven truly independent financial planners in Australia?

That's the number of planners who have applied for membership to the Independent Financial Advisers Association of Australia and passed its gold standard of independence test. Frighteningly, the figure is half what it was a year earlier.

The three-pronged test says a financial planner should have no ownership links with any product manufacturers or take any commissions or asset-based fees.

The association's Daniel Brammall says many planners apply for membership but fail the independence test.

Chartered accountant Robert Brown sees the IFAAA standard as an ideal that all planners should strive for, but he believes many of those with links to financial institutions are nevertheless fair and ethical people.

"The very fact that a planner works for a financial institution may not necessarily be a bad thing and in fact it could be good, as it means big brother might help out if there is an issue," says Brown, a vocal advocate for flat fees wherever a planner is employed.

"However, the problem for even the best of these planners is the difficulty clients have in working out whose interests are being served. It all comes down to unambiguous trust."

If you go to Westpac or AMP for financial planning advice, you should have gone there with the full knowledge that you will be offered Westpac or AMP products.

But that shouldn't be the end game.

Your financial planner's key role should be to provide strategic advice first and product information second.

Then whether or not you choose to take up that product is all down to you.

The federal government's Future of Financial Advice reforms, set to be introduced later this year, are aimed at improving the quality of advice and enhancing retail investor protection.

The new elements of the reform include a ban on upfront and trailing commissions for investment products, a ban on commissions for risk insurance within super funds, an opt-in provision for clients, a ban on volume or sales target payments, a ban on soft-dollar benefits and the introduction of scaled advice.

According to Brown, the problem with these reforms is that while they are well intentioned, they are not principles based. Instead they are based on political compromises between the various stakeholders, resulting in legislation that is likely to lead to a significant increase in the cost of financial planning advice without a large enough upside for consumers.

But whatever reforms are adopted in the post-FoFA environment, there will still be a place for good professional financial planning advice.

A recent survey commissioned by the Financial Services Council showed that a 30-year-old who sought financial advice would be \$91,000 better off on retirement than somebody who did not get advice.

Finding the right advice for your individual circumstances is the issue.

Conflicted advice is viewed as the big bad enemy, but if you know the conflicts does this erase the negatives? After all, if you are given Westpac products from your Westpac adviser, you will hardly be surprised.

Equally, if you know where the planner's income is sourced it could be argued that you are going in with your eyes open.

Brown believes financial planners should get rid of all conflict to act professionally. He argues that if financial planners want to be treated as professionals then they should acknowledge that they are not operating in a free market but in a professional market akin to that of a doctor, lawyer or accountant. In such a market the interests of the client should always be paramount and each profession has a code of ethics underlining this.

In fairness, the Financial Planning Association has a code of ethics where the first principle is that the planner should put the client's interests first.

But some question whether this can be the case when there are still planners who calculate their remuneration as a percentage of assets under management.

The argument goes that it fails on two counts. First, the amount is not based on a service (and a service is what you are seeking) and, second, you cannot say that a \$400,000 portfolio is twice as hard to manage as a \$200,000.

On that second point, it should be noted that the percentage charge tends to reduce the greater the amount, so it is never linear.

But IFAAA's Brammall says: "There is no sensible reason a consumer would agree to an asset fee to pay for a strategic planning service unless the consumer's No 1 objective is to make the planner rich giving conflicted advice."

If the alternative is a fixed fee or an hourly rate, is this perfect? After all, there is always room here for manipulating time by exaggerating the hours for an hourly rate or reducing the effort to meet a prearranged flat fee.

In an ideal world, what you pay should equate to what you think the advice is worth to you. Unfortunately, if that were the case, there would be few financial planners in business.

A recent survey by Investment Trends showed that Australians believed each consultation should cost just \$300.

By contrast, the average independent financial adviser has to charge \$2700 for comprehensive advice and \$1200 for simpler advice.

A comprehensive financial plan will take several hours to achieve, says BFG Financial Services managing director Suzanne Haddan.

"Realistically, a \$1200 plan based on an hourly rate would only constitute three to five hours' work and you would probably spend that time alone just talking with your client. Generally you would pay at least \$4000 for a full financial plan."

Haddan says four elements should be used in determining a fee: time, expertise, complexity and the level of responsibility (that is, how much money you have).

Of course not everybody needs holistic advice. As a consequence, the FoFA proposals include the introduction of scaled advice whereby you can get information on one-off queries rather than a whole life plan.

Under this proposal, a range of advice providers including superannuation trustees, financial planners and potentially accountants could provide advice about one area of an investor's needs or a limited range of issues.

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