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True cost of opt-in a mystery

Estimates range from $11 to $250 a client

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The federal government's draft legislation for its financial advice reforms has heightened confusion over the cost to the industry of getting clients to sign fresh advice contracts every two years.

Financial Services and Superannuation Minister Bill Shorten unveiled the draft laws yesterday, including the so-called opt-in component of his Future of Financial Advice (FOFA) reforms, initially announced in late April and applicable to new clients from 1 July 2012.

In his statement announcing the draft legislation, Shorten cited a figure from research group Rice Warner, which estimated the cost of opt-in to be about $11 per client.

However, an Investment Trends survey has shown financial planners expect it will cost up to $250 per client to administer opt-in.

Opt-in is one of the thorniest aspects of FOFA, with advisers concerned over record-keeping demands and high costs of the measure.

Asked about the $11 estimate, Synchron director John Prossor said: "That's absolute nonsense."

Prossor estimated it would cost $75 to $100 per client.

Rice Warner director Richard Weatherhead said the research group's estimate included one-off development costs to put the process in place, the ongoing annual cost of operating the process and the upfront costs amortised over seven years.

"Then we took the overall costs to the industry and divided them by our estimate of the number of people receiving advice," Weatherhead said, adding Rice Warner estimated the total number of Australians receiving ongoing advice at about 600,000.

Asked about the yawning gap between estimates, he said: "Part of the difference there is that we've assumed that with grandfathering, a large number of clients are not being talked to frequently.

"That is a big cost. I think some people are taking that cost into account. We're saying that because that business is grandfathered, this is only applying to people who have a regular ongoing relationship with their adviser. Therefore, the opt-in process is part of the normal discussion between the adviser and their client. If it's part of that discussion, there's minimal additional cost.

"I think that's the difference. It may not actually be that one number is wrong and one number is right. It's just that what's being included in the number is different."
