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Value in financial planning reforms to keep advice above board

- Robin Bowerman
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Bill Shorten sees the reforms as a long-term growth strategy for the industry. Picture: Kym Smith.

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BIG retail chains are not the only ones being challenged by a shifting consumer landscape and behaviour. Low consumer confidence is causing people to keep credit cards firmly in the wallet while a strong dollar is encouraging greater use of online sites and causing our largest retailers heartburn.

The financial planning industry wishes that was all it had to worry about. It is dealing with customers underwhelmed with portfolio performance, unnerved by recent market volatility and global debt concerns at a time when the federal government is busy rewriting the rules the industry operates under.

The federal government is in the final stages of a significant overhaul of the way advisers are regulated and remunerated. The first tranche of draft legislation that will radically reshape the business rules financial advisers operate under was released last week by Assistant Treasurer and Minister for Financial Services and Superannuation, Bill Shorten.

This is wide-ranging, long-term reform that not surprisingly is contentious, given its impact on business models that channel billions of dollars of Australians' savings.

The thrust of the Future of Financial Advice legislation is to be applauded: it has the aim of improving the quality of financial advice, building confidence in the industry and removing a range of ways advisers are paid that

clearly distorted the advice given.

Despite a broad industry consultation process, some strident criticism continues and there are still key points of dissension for Shorten to resolve before he faces the not inconsiderable challenge of navigating the parliament to turn the draft bills into law.

But Shorten is right about one thing. The reform of the financial planning industry is a long-term growth strategy. The demand for advice is set to explode as the baby boomers hit retirement, but the shape, cost and delivery of advice will need to evolve to better match the needs of investors.

In short, investors need to get and see better value from their advisers.

Greater segmentation, lower costs and a value proposition not based on picking investment winners will be the name of the game.

One of the real challenges faced by the financial planning industry is that its value proposition evolved from a product sales model so, over decades, the fees were generated on the product transaction and the advice around setting up a financial plan and constructing a portfolio were ostensibly free.

To be fair, leading financial planning groups have been moving to reshape their businesses in recent years to fee-for-service models where clients are asked to pay for the advice component with the product transaction being part of the plan's implementation rather than it's centrepiece.

Just how the industry needs to change has been highlighted by a survey released last week by research group Investment Trends of more than 3000 investors with their own self-managed super fund. SMSFs are, in many ways, the sweet spot in terms of client segments for financial advisers.

The average SMSF has typically two members with about \$1 million in assets and a small business is often part of the picture. These are people looking for more control over their super and financial affairs generally.

Fertile ground for a good financial planner, you would think. What the Investment Trends study conducted in May this year shows is that this group of relatively savvy investors is changing the way it regards and uses advisers.

The marketing challenge for the planning industry is that more than 30 per cent of SMSF investors say they do not use advisers because they believe they can make better investment decisions themselves. And for the past three years a rising number of SMSF investors said they had stopped using their adviser because of bad outcomes.

Clearly portfolio results are driving changes in attitudes within this group.

On the positive side of the ledger, of those SMSF investors who continue to use financial advisers, more than 50 per cent said they use an adviser because they "like having a second opinion".

Other key drivers for using advisers were to gain access to a wider range of investments and the technical skills advisers bring to the table.

The second opinion role for an adviser poses a different challenge for traditional financial planners who are used to clients delegating the decisions to them and reflects one of the fundamental changes under way as investors become more informed and engaged in managing their financial affairs.

In the future it seems the modern financial planner is likely to be more a "financial coach" rather than have their hands on the portfolio's steering wheel.

This really goes to the heart of why you would use a financial planning service in the first place. If you are going to see an adviser with the expectation that they can pick a range of hot investments you are likely to be sadly

disappointed.

If you are seeking advice to build a portfolio that lines up with your personal circumstances and risk profile, set realistic retirement goals and consider tax and estate planning issues, you have a better chance of seeing the value in the money you are paying.

One of the key focuses and benefits to investors that should flow from the government reforms is the removal of payments that distort the advice recommendations, such as commissions and volume-based payments.

But transparency around fees being charged will also be fundamental to investors understanding exactly what they are paying for and therefore the value they are receiving.

About 26 per cent of the investors surveyed said they were reluctant to pay fees for financial advice in the future while a further 14 per cent are expecting to pay lower fees.

The government's reform proposals will be vital to set up a more transparent industry structure but a clear message from SMSF investors is that their attitudes to advice are already changing and they are threatening to vote with their feet if the industry does not respond.

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