| | |
|---|---|
| name | Kim Scott |
| Position | Director, CA, CFP |
| Organisation/Affiliate | Crossing Financial Partners |
| Exposure Draft | ED 02/10 Proposed Standard APES 230 Financial Advisory Services |
| confidentiality request | no |
| Comments | There are 2 essential matters here: 1. Hourly based fees or even fixed fees don't automatically guarantee better or worse service than asset based fees – the adviser, and their support team (including their Licensee) determine this. 2. I believe that if the education bar/entry level for Financial Planning qualifications were raised to be granted Authorised Rep status, and we had a professional body (ie FPA) with teeth that all Authorised Representatives had to belong to (with professional standards that all followed), we might not be having this debate about ongoing fees. Further details: 1. Hourly/ Fixed fee or asset based fee: We have a professional and hybrid fee-for-service based business that includes: * Approximately 20 "Services" with a fixed fee - for example calculating the benefits of a Transition to Retirement strategy. * 4 levels of Review Service, comprising both a fixed annual fee and an asset based fees: - The fixed fee represents the value in our strategy advice and time to prepare the Statement of Advice (or Record of Advice). In many cases, the value of the advice is significantly more than the agreed fee eg extra retirement savings may be $100,000 through using salary sacrifice, assistance to set and keep to a budget, and paying off credit debt first. Perhaps VALUE given rather than time/hourly fee is a better method of charging??!! - The asset based fee represents the time invested by us in looking after the investment throughout the year. The asset based fee % reduces as the value of the portfolio rises (a bit like reverse marginal tax rates) reflecting some economies of scale. I believe this gives us a real commitment to the client to grow the funds under our management. My clients have actually REQUESTED this: we have "skin in the game", where if asset values increase we benefit, but no one seems to remember that when asset values fall we also share the pain. As a CA practitioner and CFP spending 100% of my time in Financial Planning Advice area, I don't entirely agree with the Institute's submission that there should be no link between the sale of a product and our remuneration. I would estimate that two thirds of our client base could not have afforded their initial advice and ongoing annual review were it not for the ability to have this advice paid for from the investment. This is particularly the case for advice on existing super funds, and/or their consolidation where non-super cash is limited. We have always provided full disclosure as to both the initial cost of our advice, and ongoing costs (which are re-disclosed annually). We give clients the choice to pay the upfront cost from an account separate to the investment or super, and in almost 18 years of practice, less than a handful of clients have selected this option, preferring instead to have the cost deducted from their investment. Low value investors (say less than $20k) MUST have an ongoing fee because they simply can't afford to pay a high upfront fee for advice. Eg 25 year old with $5,000 to invest won't pay 2/3 of their savings to us as an advice fee, yet on an hourly time basis, we spend between 2 – 4 days in interviews, collecting information, preparing strategy and Advice documents, and ensuring the money is invested correctly (rollovers are particularly time-consuming). If the ability to deduct advice costs from the product is removed, you will also remove the |

ability to access advice for the majority of Australians who need it most. Being paid by the hour (where there is less reward for being efficient) from a client's bank account no more guarantees good advice than being paid for from a product, as long as the client agrees to the fee. Whilst on this matter, almost all large Dealer Groups take their remuneration directly from products, before passing on the balance to the Authorised Rep (or in the case of Banks and Insurance companies, build their profit into the MER of the product that they own in-house or as shareholders of Financial Institutions). This makes an unlevel playing field for Planners like me who do not simply receive a salary from a Licensed Dealer who is selling products. It is impractical and inequitable to ask Planners to source their revenue exclusively outside the investment product, when the very organizations ASIC gives the Licences to source their revenue FROM the investment product. If Planners have to use Fee for Service, then Licensed Dealers should have to do the same. A middle ground is to ensure that when the advice is given, the ongoing advice fee (currently bundled in the MER of many funds), is agreed to between client and adviser, noted separately both in the Statement of Advice and the application form, and the client signs off on both. We already have this arrangement with one of the platforms we use, and have done so for the last ten years. The fee has two components - one for strategy advice, and one for investment selection and management. Industry super funds like NGS and State Super offer in-house financial planning for no or very low cost with "restricted" advice options. As a generalization, Industry funds make it difficult for us to get information on behalf of clients, particularly unit prices, client units held, and asset allocation on a daily basis. Public offer fund managers do provide this information, and also contribute significantly to assisting us with their Technical teams, providing experienced and qualified speakers at Professional Development Days etc. They, unlike the Industry funds, are helping their investors by supporting Financial Planners to receive good ongoing support for their technical, business administration and development and client communication training. This support has a cost, and Industry funds are simply providing less Service/advice/support for a lower cost. I think the FPA, ICA and other professional bodies that represent Financial Planners have done little to counter the Industry Super fund advertisements that imply commissions to Financial Advisers are a waste of money. I'm sure you are aware of many studies that show the value of Advice in reaching client goals can far exceed the commission cost. The real question is for individual investors to ensure that they feel they are getting value for any commissions they pay. In addition, a product cannot be judged superior simply because it's fees are lower - that's like saying you have a better accountant because you paid less tax - it may simply be because you earned less income in the first place! 2. Education Standards: We're competing in an industry where the majority of planners are NOT members of a professional body. I'd say about a half of all Authorised Representatives are members of the FPA, and the FPA has conflict of interest in representing both Dealers who sell product, and Planners who don't sell in-house product. Financial Planning requires at least a general knowledge of Tax Law, Superannuation Law, Corporations Law, Family Law, Economics, Centrelink, Human Psychology, conflict resolution, communication and writing skills, and for many, business administration. We are the GPs equivalent in the Finance Industry, and entry level qualifications and experience should reflect the high standard required to offer advice in this broad and complex space. Some goals: 1.By say 2014 all new entrants who want to become professional financial planners to have as a minimum a tertiary qualification in financial planning. At

the moment, anyone can get RG 146 accreditation (within a few weeks) become an Authorised Rep and call themselves a Financial Planner. We have a client who was a tradesman who, with less than a year of part time study, holds out the same shingle as me (it took me 9 years of Uni, CA Program and CFP studies to obtain my qualifications and experience)! I think we need different designations eg if you aren't currently a CFP, or by 2014 have not completed the tertiary pathways prescribed by the FPA plus one year's supervised work, you should NOT be able to call yourself a Financial Planner. The designation could be "Paraplanner" or "Product Adviser". I realize this will could put a squeeze on finding new employees, but as Principals, we can choose to employ people (as I have) without Tertiary qualifications who can still do lots of the Planning work, and either NOT sign off as Authorised Rep, or make it clear that they are NOT as qualified or experienced in their sign off by having a different designation. 2. By 2012, develop with the education sector a commonly recognised curriculum for financial planning based on the Financial Planning Standards Board curriculum topics. 3. Dealers and Planners to work with ASIC, the government and the profession to develop an objective assessment mechanism that instils confidence in financial planner entry competence. 4. By 2012, all education programs should provide a clear entry pathway to professional designation. 5. Membership of a professional body (the FPA will have to do for the moment) is a compulsory component of the issue of a Authorised Rep licence, just like you have to be a member of the Institute of CAs to both become and stay a CA, or like a doctor both qualifies through and stays a member of, say, the College of Surgeons. 6. All Continuing Professional Development (CPD) should include mandatory training in ethics. Australian Financial Services Licensees to dedicate resources and attention to the supervision of CPD to ensure it focuses on professional alignment, rather than simply compliance with RG 146. Regular Dealer Audits or Peer Audits should oversee this. I have always felt that the solution is to license individuals with the appropriate qualifications and membership of a Professional body with practice guidelines, ongoing education requirements and disciplinary measures, rather than through Dealer groups. A doctor is not licensed by a Hospital or Pharmaceutical company. An architect is not licensed by Boral. A CA Financial Planning specialist should be ideally qualified in this regard. Once qualified, a CA can practice on their own and source technical advice, software choices etc at their discretion. The client pays the CA, and the CA attends to the overheads. In Financial Planning, the compliance costs of being a small licensee under the current regime is onerous and ever increasing - I estimate the cost to our practice at over $50k pa to keep on top of both compliance and research matters, and of more concern is trying to find and keep suitably qualified and experienced staff in this Compliance area. For this reason, I've chosen to be an AR of Count and take advantage of economies of scale, but I would rather that I was licensed and choose to pay Count for services rendered, rather than them having control of the revenue source. I felt very vulnerable when Count as a Dealer chose to relinquish it's FPA membership for a time, and that meant I would lose my FPA CFP designation - a ridiculous state of affairs. I earned my qualification, not Count!

In summary, here are some solutions to this whole debate: • Push for a minimum entry level of university qualification and "internship" to be licensed as an Authorised Representative ie make CFP the minimum entry level NOW. Being able to call yourself a planner after 3 months training with no prior industry experience is an insult to qualified and experience Financial Planners, and more

importantly is dangerous for uninformed clients. Have a different designation for those “planners” who don’t meet the education or experience standard. • Mandate membership of a Professional body for all qualified planners – like the Institute of Chartered Accountants. This body can work with Practitioners to develop standards of Advice and guidelines for methods of remuneration. • Retain flexibility in the method of charging at Practitioner level - Hourly based fees or even fixed fees don’t automatically guarantee better or worse service and quality advice than ongoing commission – the adviser, and their support team (including their Licensee) determine this. • If the ability to deduct advice costs from the product is removed, you will also remove the ability to access advice for the majority of Australians who need it most. Being paid by the hour (where there is less reward for being efficient) from a client's bank account no more guarantees good advice than being paid for from a product, as long as the client agrees to the fee. A middle ground is to ensure that when the advice is given, the ongoing advice fee is agreed to between client and adviser, noted separately both in the Statement of Advice and the application form, and the client signs off on both. • In addition to the above, to make good advice more affordable, ASIC needs to relax the Statement of Advice requirements for lower $ investments (say $20,000 in super or non-super), and Replacement product disclosure requirements so that the length and therefore COST of the Advice document can be reduced. • To meet the need for the majority of Australians who need our expertise, but can’t afford it, perhaps Centrelink or Family Assistance office or Medicare could issue a voucher to the value of say $1,000 which can be used to pay the cost of qualified Financial Planners. This short term cost to Government will be recouped many times over when we can help people to become financially independent, reducing the need for Centrelink payments, marriage break-ups over money disputes, and lower health care costs as we know financial stress is a major contributor to poor health, lack of productivity etc. • Push for a level playing field with sharebrokers – in particular ongoing written trade advice (or lack thereof) is totally different to Advice requirements in relation to advice for changes to investments in managed funds, particularly Replacement Product disclosure if platforms are changed. • Push for a level playing field with Real Estate Agents – this asset class usually requires a far greater investment of cash (or risk in borrowings) than many of our clients make in super, shares or managed funds. Property is purchased by the majority of Australians yet education standards for accreditation as an agent are low, and no written advice is required in relation to the “appropriateness” of the purchase of this investment, either on it’s own merit, or in relation to other asset classes. I look forward to your comments,

This is an automatically generated email sent via the APESB website.