Restoring trust in financial advice

Financial planning must be professional, and new government reforms are a good start, write **Tim Mackay** and **Claire Mackay**.

As financial planners we, like many of our colleagues, have business and revenue bases to protect. Many of our colleagues in five to 10 years' time will not still be active in the profession, instead enjoying well deserved retirement. But as younger financial planners – with 25 years-plus ahead of us in the industry – it is short-sighted for us to focus just on current revenue protection.

Industries evolve, and we view the government's Future of Financial Advice reforms, announced last week by Financial Services Minister Bill Shorten, as a solid start towards developing the professionalism of financial planning.

The ban on life insurance commissions in super from July 2013 recognises that commissions affect the quality of advice and can drive premium prices up, exacerbating the underinsurance problem. We are disappointed the government did not also uniformly apply the ban across life insurance outside of super. We believe consumers who choose to hold their policies outside of super deserve the same level of protection.

The current embedded average 30 per cent life commissions adds 43 per cent to the price of life insurance products. Banning all commissions could lead to decreased complexity in life insurance products and hence decreased underinsurance.

Commissions are a lazy way for professionals to charge fees. It is human nature that people don't like paying upfront fees. However, financial planners should proactively justify to consumers that our advice services are truly value-adding and worth paying for. Consumers are not better off paying commissions, which are – essentially – hidden fees. Ignorance is not bliss.

Obviously financial planners like loyal customers, but smart consumers shop around to take advantage of the best advice service. By being apathetic over their finances, some consumers are paying unnecessary fees each year.

The opt-in requirement will ensure consumers are more actively engaged in their finances, which can only be a good thing. Every two years consumers are prompted to consider whether they are receiving true value for money for the fees they pay. If they do not feel they are receiving value for money, then they can stop paying.

Advisers who rely on passive income streams they have either bought or built up over many years, which are still paid by inactive clients, will find this reform difficult to implement. Those advisers rightly fear they will not be able to convince inactive, yet fee-paying, clients to sign an opt-in notice. Opt-in will drive the professional shift from sales- to relationship-based financial planning. Advisers who are actively engaged with their clients and already show they are providing value-adding advice will not find this reform changes their business in any material way.

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However, opt-in will apply only prospectively. We believe this will create two tiers of consumers – those who sign up to advice services from when the reforms are implemented will attract greater protection than those who already receive advice. Our advice to all consumers will be to use the introduction of opt-in as an opportunity to review your current service and to either engage another financial planner under the new requirements or, if you are satisfied with your current adviser, renew your service with them. Opt-in is a great opportunity for all clients to re-evaluate the true value of their current advice service.

The devil is in the detail regarding the volume bonus ban. Until we see the details of exclusions from the volume bonus ban, we do not know if the ban has any teeth. Our concern is that the exclusions will be big enough for the big dealer groups and platforms to drive a truck through, enabling them to carry on paying and receiving the conflicted volume kickbacks in much the same way as they do now. We are also surprised that the volume bonus ban excludes life insurance products. No reason is provided for this exclusion and we are interested to see the rationale.

We welcome that the reforms recognise the insidious nature of soft-dollar inducements (junkets, boondoggles or bribes by other names). We applaud the proposed condition that all "professional development" take place in Australia – removing the temptation for advisers to attend fully-paid trips dressed up as "conferences" provided by product providers in Fiji or Vanuatu.

Consumers rightly demand that there be truth to labels – if you seek advice from a doctor you don't expect them to have completed a diploma in introductory medicine. Likewise, consumers will benefit from higher standards that restrict the non- (or lowly) qualified from holding themselves out as qualified financial planners. According to Shorten the industry has lost the trust of many consumers, who feel it is "underregulated and open to abuse". We believe restricting the terms financial planner-adviser will help rebuild that trust.

We believe the biggest challenge for the long-term future of our industry is to restore trust, which has been dented for too long. As financial planners, we see these FOFA reforms as a good step towards rebuilding trust.

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