

# Super dupers: Beware of dealers posing as financial advisers

IT is almost a year since federal Treasurer Peter Costello said, after delivering the federal budget in which he announced several simplification measures to superannuation laws, "you don't need a financial adviser to get into superannuation".

Why then is there unprecedented demand for financial advisers?

Figures presented at a conference in Queensland this week indicated that planner numbers need to increase by 20 per cent from the current 16,000 to cope with demand.

Richard Gilbert, the chief executive of the Investment and Financial Services Association, told the conference that his contacts with the major dealer groups repeatedly reveal that they need more planners than are available.

Gilbert estimates that about 1 million people actually looking for advice are

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not going to get it. In short, super obviously isn't as simple as it should be but, more importantly, why is the advice needed for super monies still being bundled with general investment advice?

And why do industry leaders such as Gilbert and Financial Planning Association chief executive Jo-Anne Bloch have to repeatedly remind their members about the importance of giving appropriate and quality advice?

The Government may have made superannuation the optimum savings vehicle for almost every age group —

which is why large numbers of people are and should be taking an interest in their retirement nest egg — but it is compulsory.

For many, that minimum 9 per cent a year slice of their wage that is being taken out and collectively pooled for investment purposes will be their only savings.

That money should not be treated in the same way as a person's everyday savings and any advice a person does receive in relation to superannuation should be subject to a higher duty of care. Perhaps now is the time to restrict use of the word "adviser" to the paid adviser, where there are no commissions.

Dealers should have to reveal themselves as such and be prevented from using the word "advice" with clients.

Under the current licensing regime for financial advisers it's hard to see

how that can happen when anyone with a financial services licence can receive a commission every time they recommend a certain investment product. Anyone can call themselves "adviser" even though all they may be doing is selling someone's product. Furthermore, it can be called advice provided they disclose how their remuneration is calculated in what is often a lengthy and complex document.

Slowly, advisers are starting to speak out against the current system and take their own stand against a complex web of commissions, rebates, profit shares and bonuses.

An independent firm, Strategy First Financial Planning, which wanted to highlight the conflict of interest involved in the rebates paid to planners and dealer groups when a client's money was directed to certain fund managers, recently directed \$10,000 in

potential rebates to the Leukaemia Foundation.

Director David Price, who charges a fee for his advice, believes that while the "leaders of the industry" seem to want change, few are willing to publicly speak against the conflicts of interest that exist as a result of the industry's history and structure.

Philip Carman, a director and principal adviser of Personal Asset Services, is another disgruntled investment adviser (who charges fee for service except in circumstances where receiving a commission is the only way a client can afford his advice) who has been railing against the conflicts for some time.

"You simply can't have a regime in place where people who are being forced to save also have to pay commissions," says Carman. "Fundamentally, commissions are wrong-

headed and are a destructive force in what needs to be a business built on trust and mutual benefit to the provider and receiver," he says.

One way to get rid of commissions is to change the licensing regime.

Distinguishing between an adviser licence and a dealer licence would help. The holder of an adviser's licence could be restricted to fee-for-service, leaving them to build a business which perhaps focused on the long-term gains of investment, including making good use of the super environment. A dealer's licence would allow commissions to be taken from third-party product providers — which may be the optimum way for some people to build wealth.

To illustrate the distinction Carman suggests replacing the word "financial" with, say, "antique".

"An antique dealer sells antiques — whereas an antiques adviser would be

expected to be impartial and to not sell antiques but instead, to accompany you when you purchased them and advise on whether the price/quality was fair. The same should apply to financial services but, in effect, the opposite is the case," he says.

The greatest free kick the financial advice industry got was when compulsory super was introduced by prime minister Paul Keating almost 15 years ago. No wonder advisers like Carman call him the patron saint of the adviser industry.

With tens of billions of dollars flowing into the system annually, people who have no choice but to hand over the money they work hard for need to know they are getting the best possible outcome for their retirement — which includes greater protection against potential conflicts of interest.

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## Rebates could cloud advisers' vision

JUST when you thought it was safe to assume the wealth management industry was doing what it could to promote independence and clear the sector of conflicting interests, along comes an initiative that could blow that concept away.

So-called volume rebates are the latest commission scheme which could sway the advice given by financial planners to clients.

It starts with platform providers like BT Wrap and Macquarie Wrap which offer financial planners a commission, known as a volume rebate, based on the amount of client money they invest in these structures. The more money they put in, the more they earn.

For some advisers it is big money. According to an industry insider, one of the largest financial planning companies last year made \$18 million from volume rebates and only \$6 million from advice.

All of this may be above board (except that it is buried in the accounts). But there are some advisers who fear that investors could be steered towards the platforms offering the biggest rebate irrespective of the client's best interests.

According to Rainmaker Research, platforms are one of the fastest growing investment concepts and account for about \$330 billion in assets, of which \$60 billion is in wrap accounts.

Essentially wraps are an administrative structure that gives investors access to a wide range of fund managers and an easy to follow report. Investors can pay a lot for the service without seeing the commensurate returns but there is the convenience factor.

What should be increasingly obvious is that high fees can rapidly eat into an individual's investments over time.

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hence the need to find value for money.

BT, a dominant player in the wrap market, is using its market power to try to lower some of the costs for investors.

This is obviously a good thing but not everybody is convinced that BT's approach is the best for the financial planning industry, which is constantly trying to prove its reputation.

BT, through its recently launched Wrap Advantage initiative, has asked 15 fund managers to join its platform for a

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David Price, Strategy First Financial Planning

reduced fee on more than 60 managed funds and work with them on "improving data and information flow to enhance reporting".

The advantage to the fund managers is being on the BT Platform, which has potential access to thousands of customers and billions of dollars in assets.

BT has pledged a fee rebate to every investor with money in a BT wrap account. Importantly, the rebate will be credited directly to the investor's account. No one would argue that cost-

wise things are heading in the right direction. Given the economies of scale in the financial services industry, investors have long been entitled to lower fees.

The issue with volume rebates is that the rebate is not always directed at the investors. Some of it is earmarked for the financial planners.

Technology has surely advanced so every platform provider could refund the rebate directly to an investor's account, if that is what they really mean to do.

One financial planning firm is highlighting the importance of independent advice by donating — with their clients' permission — the rebates it generates to the Leukaemia Foundation.

David Price, a director of suburban Sydney-based Strategy First Financial Planning, challenges every AFS licence holder that receives a volume rebate to do the same. For many of his clients the

position against rebates, as it can be a significant part of their remuneration.

"People want independent financial advice but in my view these programs of volume rebates become a potential impediment to such advice. It doesn't help our industry move to being considered a profession," he says.

BT general manager of customer solutions Jason Yetton says price is only part of the equation and that financial planners should make decisions on wrap providers based on the best interests of their clients.

He says that wraps will be the leading platforms of the future, so value for money will be demanded and the rebate initiative is a good way to pass it back.

Certainly there is the potential for rebates (and all commissions) to get messy, especially if not disclosed properly. If a platform provider is sending money to a planner and saying "you hand it over to investors" and they don't, then it amounts to theft. Hopefully the regulators are watching.

On a not unrelated issue, Industry Super Network head Garry Weaven was in Canberra this week arguing the case for a law requiring financial advisers to provide advice or make investments only in the "best interests of their clients".

Weaven's argument was strengthened by the result of a Newspoll survey, which indicated that one in five respondents wrongly thought such a law existed and only 16 per cent of those surveyed believed financial planners gave advice only with the best interests of their clients in mind.

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