Submission to the

Inquiry into Financial Products and Services in Australia

by

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APT Strategy holds Australian Financial Services Licence 226 898.
It has been licensed since 1995 and has never received a complaint from a client.

Executive Summary

Just as there are many ways to skin a cat there are many ways regulatory environment could be improved to protect consumers. We also need to recognize that there are many ways to fleece a consumer and that significant improvements are unlikely eventuate unless we address the underlying issues. That is, we need to look beyond simplistic issues such as commissions, independence, RG 146 training, etc. and determine how it is that some consumers have received such poor advice. Only then can we meaningfully examine options to reduce the likely of poor advice in the future.

The introduction of this submission raises the following 9 questions and provides brief comments in respect of each question.

1. Has there been excessive reliance on the provision of information to protect consumers from shoddy advice?
2. Has there been excessive reliance on disclosure of conflicts of interest to protect consumers from biased advice?
3. Are the licensing arrangements conducive to rogue AFS Licensees?
4. Do the licensing arrangements inhibit the evolution of a financial advising profession and is this a bad outcome for consumers?
5. Has the policing of existing legislation has been appropriate?
6. Has there been too much focus on the process of giving the advice and too little on the quality of the advice?

7. Has the restriction of the use of the word “independent” helped/hindered clients?
8. Do consultative processes such as this lead to good outcomes for consumers?
9. Can regulation be contrary to consumer interest?

The subsequent sections deal with each of the 9 aspects listed by the PJC and makes numerous recommendations the most significant of which is the final recommendation. The basis for this recommendation lies in all that precedes it. It lies in the recognition that consumers cannot be adequately protected by disclosure and financial literacy. It lies in the recognition that compensation schemes are a poor solution.

In essence, this recommendation involves creating a professional body that is administered jointly by financial planners, ASIC, and consumer representatives. This body would regulate those advisers who by virtue of experience, training, etc. were considered to be capable and worthy not being required to work under an AFS License. These people would be known as registered Financial Planners. Other people would not be permitted to use the term Financial Planner.

Thus, the title “Financial Planner” would assist consumers to distinguish between the advisers with substantial training and experience (e.g. CFP + degree + 5 years experience) and the newbies who could only work as representatives (apprentices) of AFS Licensees.

Consumers could also benefit by being able to easily distinguish between:

- those registered Financial Planners who worked for distribution channels; and
- those who did not work for distribution channels.

This benefit to consumers presumes that the professional body would have strict rules about the effectiveness of disclosure of such matters and that it enforced them properly. It would, of course, be far easier for a professional body to effectively enforce proper disclosure by registered Financial Planners than it is for ASIC to enforce such rules with the Authorised Representatives of AFS Licensees because of the power of the professional body to de-register the Financial Planner. Obviously, other standards of quality could also be enforced.

A flow on effect of having a professional body that registers financial planners is that it would be very hard for rogue AFS Licensees to exist as:

- they would have trouble attracting registered Financial Planners; and
- they would lack the credibility of the institutional advisory businesses.

This would make it hard for manufacturers of dodgy products to find people who would market their products. If we can create the right regulatory environmental conditions then dodgy products will become an endangered species.

This submission includes many other recommendations some of which would be superfluous if the above recommendation were implemented.

Introduction

Financial advisers exist not because they have a role, but because consumers have wants and needs that financial planners can satisfy. The free market is very good at ensuring supply meets demand. However, in circumstances where the client is unable to assess the quality of what is being supplied the free market does not always give consumers the appropriate quality of service. This is why the supply of financial services needs to be regulated – to protect consumers from the incompetent and the unscrupulous.

During boom times deficiencies in the regulatory environment are not always apparent because even bad advice can give good results, but when booms go bust, when even good advice has led to bad results, any deficiencies become evident. In particular, it seems from anecdotal evidence that there have been instances where some consumers have been led down the garden path in one way or another. This is not acceptable.

- Australian consumers should not be seen as cows to be milked.
- Financial advisers should be competent and should treat consumers fairly.

It is very appropriate that we should now review the existing regulatory environment to determine if it has let Australian consumers down and whether there is opportunity to fine-tune it in ways that are likely to provide better outcomes for consumers in the future.

Aspects of the regulatory environment that I think warrant consideration include, but are not limited to the following

1. <u>Has there been excessive reliance on the provision of information to protect consumers from shoddy advice?</u>
    - When a consumer is faced with a smooth talking adviser who gives the impression of being professional and is given brochures, FSGs, research reports, SOAs, PDSs that have been carefully worded by solicitors, compliance experts, and marketing people is it realistic to expect the consumer to make sense of all the information? Or is it realistic to expect the consumer to go where they are led?
2. <u>Has there been excessive reliance on disclosure of conflicts of interest to protect consumers from biased advice?</u>
    - Disclosure has proved to be ineffective.
    - To often disclosure is buried in the depths of an SOA and couched in such terms that it does not alert the consumer to the extent that the advice may be biased or the consequences of such bias.
3. <u>Are the licensing arrangements conducive to rogue AFS Licensees?</u>
    - While many AFS Licensees may be responsible it seems there are some AFS Licensees which appoint representatives with minimal education and supervision. The AFS Licensee may even implicitly encourage poor advice by offering “sales” incentives and turning a blind eye to the advice given to consumers while simultaneously covering its own backside by documenting its training and supervision in such a way that if something goes wrong the adviser will be the scapegoat despite the licensee having purposely created the corporate culture that led to the poor advice.
4. <u>Do the licensing arrangements inhibit the evolution of a financial advising profession and is this a bad outcome for consumers?</u>
    - The cost and hassle associated with obtaining and holding an AFS Licence is so significant that it discourages many well qualified advisers from obtaining an AFS Licence of their own.
    - The extent to which representatives can operate as professionals is governed by the corporate culture created by their AFS licensee.
    - I cannot think of a single profession that operates within a licensing arrangement in which businesses are licensed to authorize people to act on their behalf. Our situation is a bit like businesses being granted medical licenses and these businesses being able to authorize people with minimal training to be doctors. Such a system can only work well if the licensee supervises and trains their “doctors” sufficiently well as to ensure that the doctors only acted within the limits of their capability. However, let’s get real about the nature of some businesses. Some are highly driven to make

profit and/or to build the sale value of the business. Such businesses seek to cut costs and boost revenue. When this is done to the extreme consumers are at risk.

- Is there scope for a simple, low cost, low hassle AFS Licence which would enable a person who met appropriate standards to provide financial product advice, BUT which did not allow the person to authorize others to act as representatives? Alternatively, perhaps there should be a "Professional Standards Board" which could approve people and bar people. Then perhaps we would see a cultural shift in the industry towards professionalism.

- Is it really in the consumers' interests if their primary source of financial advice is a product distribution channel owned/controlled by a financial product manufacturer?

5. <u>Has the policing of existing legislation been appropriate?</u>

   - We have laws in respect of misleading or deceptive conduct, false or misleading representations, and unconscionable conduct which I presume were meant to protect consumers from being down the garden path. If consumers have been led down the garden path why do we not see prosecution of the directors, responsible managers, solicitors, etc. who have collectively contributed to leading consumers down the garden path?

   - Section 912A of the Corporations Act 2001 imposes obligations on AFS Licensees to be fair to consumers and to train and "take reasonable steps to ensure that its representatives comply with the financial services laws". If consumers are being led up the garden path surely the problem lies with the AFS Licensee either failing to be fair or failing to properly train and supervise representatives.

6. <u>Has there been too much focus on the process of giving the advice and too little on the quality of the advice?</u>

   - This has made it easy to give "compliant" advice that is "bad" advice.

7. <u>Has the restriction of the use of the word "independent" helped/hindered clients?</u>

   - The wording of the restriction is so tight that it has virtually banned the use the words independent, impartial, unbiased and similar words. This is because to meet the legal definition of independent one would need to either avoid all products that pay trail or incur the administrative cost of rebating trail. That is, in order to be independent one must have a very restricted product range or incur additional administrative overheads.

It is ironic that in the mid 1980's the public clearly sought to move away from the tied agents of the insurance companies which had previously dominated the investment industry and now the legislation makes it very difficult for consumers to distinguish between the "tied agents" of the financial product manufacturers and those financial advisers that are not representatives of the financial product manufacturers. The difficulty faced by consumers in distinguishing between the two sources of advice is exacerbated by the fact that many "tied agents" choose to give the appearance of being independent and disclosing their links to product manufacturers so poorly that:

- many consumers are not aware of the connection between the adviser and the product manufacturer; and

- many consumers are oblivious to the way in which the links may influence the advice.

8. Do consultative processes such as this lead to good outcomes for consumers?

    - In theory consultation is good, but a basic problem with such consultative processes is that large entities have greater resources and more dollars at stake than small entities. This gives them the ability and incentive to allocate far greater resources to preparing submissions than small entities. For example, large entities can afford to employ staff who are skilled in public relations, communications, and lobbying. Senior executives of large entities are also often excellent communicators. By contrast, small entities (e.g. individual advisers, small AFS licensees, and consumers) are poorly resourced and preparing a submission can be a huge drain on their resources. Furthermore, due to the limited resources of small entities it is to be expected that submissions may be less polished and less convincingly argued than submissions prepared by institutions. Finally, large entities appear to enjoy closer ongoing communication with regulators which may give them a better understanding of how best to present their arguments.
    - The imbalance of communication power applies not only to inquiries such as this, but also in lobbying politicians, FPA, media, etc.
    - Perhaps this imbalance in communication power has contributed to the existing regulatory environment being the way it is.

9. Can regulation be contrary to consumer interest?

    - What if regulation leads to the “advisory” segment of the industry being dominated by an oligopoly of financial product manufactures?
    - What if regulation leads to the “advisory” segment of the industry being little more than:
        - distribution channels of product manufacturers; and
        - franchisee-like businesses that are created by AFS Licensees?
    - What if regulation leads to carve-outs which provide advantage to one sector of an industry relative to another sector such that:
        - the market place becomes distorted; and
        - the market place is not driven by consumer demand?
    - What if regulation leads to barriers which unduly restrict well-qualified and well-experienced financial advisors breaking away from the distribution channels and the franchisor-like AFS Licensees?

While there will always be some shonks in any industry we ought to do what we can to rebalance the playing field in favour of the consumer and against the shonky adviser/licensee.

An important step in protecting consumers is to recognize that even when consumers are very astute their depth of understanding can be shallower than they may think. It therefore seems unrealistic to expect consumers to be able to make truly informed decisions. Despite this, product manufacturers typically include in their PDSs compulsory declarations by consumers that they have read the PDS and that they “agree to be bound by the terms and conditions contained in the PDS and the provisions of the trust deed as amended form time to time …”. The reality is that few consumers would fully understand the terms and conditions to which they have agreed and hardly any would have seen the trust deed. Hmmm. At what stage do such requirements become “unfair” or “unconscionable conduct”? This is the standard that has been set by our institutions. It is what their legal and compliance teams consider is necessary to protect them against “mum and dad” consumers. With such standards being regarded as normal it allows dodgy product manufacturers to follow suit leaving consumers little scope to complain. This is common knowledge, but no one seems to have the will and the resources to challenge such standards in a court. So long as such standards exist consumers are at risk.

Similar standards flow through to many SOAs.

A second important step in protecting consumers is to recognize that educating clients is not the answer. It is simply not feasible to make everyone sufficiently financially literate that they can differentiate between good advice and poor advice.

A third step in protecting the consumer is to provide consumers with a tool that compares the advice they have been given with a series of benchmarks. The tool that I envisage is a form that would become a part of a Statement of Advice. The format and wording of this form should not be at the discretion of the adviser/licensee, but should be standard for all the industry and should be determined after discussion among relevant parties (e.g. ASIC, Treasury, FPA, consumer groups). The sort of form I envisage would provide a list of benchmarks for "good" advice and the adviser's only input to this form would be a tick/cross to indicate whether the benchmark is satisfied. The form could also provide warnings and suggested actions if any of the benchmarks are not met. The consumer would then sign the form to acknowledge having read and understood it. Of course meeting the benchmarks would not always mean the advice was good, and failure to meet a benchmark would not necessarily mean the advice was poor, but having the benchmarks would at least help to ensure that consumers had a degree of financial literacy.

For example,

- If someone agrees to put all their eggs in one basket they should understand that they are taking a big risk and that if something goes wrong they may lose all their money.
- If someone mortgages their home to buy investments they should understand that they are taking a big risk and that and that if something goes wrong they may lose their home.
- If someone gets advice that sounds too good to be true they should understand that their may be big risks and they should seek a second opinion.
- If someone is told that something is guaranteed they should understand that "guaranteed" does not mean "you can't lose your all money".
- If someone is told that something is capital secure/stable they should understand that the investment may go down in value.
- If someone is told that something is a growth investment they should understand that the investment is like likely to rise <u>and fall</u> more than capital secure/stable and that losses may be permanent.
- If someone buys an investment they should understand that the investment may fall in value, it may never recover its value, and it may become totally worthless.
- If someone is chooses to keep all their money in a bank or Government backed securities they should understand that the purchasing power of their money may be eroded by inflation.
- If someone lends money they should understand that the borrower may go broke and the money they lent may be lost completely.
- If someone is advised to buy a financial product that pays the adviser more than say 2% commission they should question whether the adviser is a shonk.

Such a form could help to protect both the consumer and the adviser/licensee.

Further protection could be given to consumers if AFS Licensee were required to lodge with ASIC copies of all forms for which the advice did not meet every benchmark. This would give ASIC advance warning of the behaviour of AFS Licensees. If this had been done in the past perhaps ASIC may have taken a better look at Storm Financial and those that overly exposed consumers to: debt, undiversified investments such as agri-schemes, fixed interest investments, etc. Such forms, coupled with action by ASIC, could make it sufficiently hard for dodgy investments to raise money that they become much less common.

Also, it is in the interest of honest consumers that the adviser and licensee should be protected from unreasonable claims for compensation by dishonest consumers. The reason for this is that ultimately any cost incurred by the advisers/licensees will be passed on to consumers. Thus, if advisers and licensees are obliged to pay unreasonable compensation it will be the honest consumers who actually pick up the tab.

Protection could be given to advisers by clarifying what is appropriate advice. Currently, the legislation in respect of the appropriateness of advice is open to interpretation and the appropriateness or otherwise is not based on the advice given, but on the process used to give advice. This leaves advisers and licensees vulnerable to claims that the advice was inappropriate irrespective of the quality advice itself. This vulnerability contributes to the “backside covering” mentality that permeates the industry which adds to the cost paid by consumers and which is evidenced in the length and content of SOAs.

The risk to the licensee is exacerbated by the manner in which FOS operates. The FPA has repeatedly expressed concerns about the FOS (formerly FICS), but these concerns appear to be ignored.

> “Ms Bloch said the FPA supported the concept of an external complaints resolution scheme but members had concerns about FICS processes.”
>
> Source: FPA Media release, 26 Jul 2007
> *“FPA urges caution on PI and FICS”*

> “ … we are still uncertain as to how FICS arrives as its determinations. Until we understand these sorts of critical issues our members will be opposed to any increase in monetary limits”
>
> Source: FPA Media release, 26 Nov 2007
> “*FPA response to FICS monetary limits increase”*

> “Before any consideration to increasing the FOS monetary limits, issues of the EDR scheme’s transparency and processes need to be addressed.”
>
> Source: FPA submission to FOS, October 2008
> *Financial Ombudsman Services’ Terms of Reference*

The new FOS Terms of Reference imposes greater risk to licensees by:

- extending its powers;
- increasing the limits of compensation;
- stating that:
    - "FOS is not bound by any legal rule of evidence"
    - "FOS will do what in its opinion that is fair and in all the circumstances, having regard to each of the following: legal principles; applicable industry codes or guidance as to practice; and a good industry practice. FOS will not be bound by any previous decision of FOS."

Such terms of reference coupled with the lack of industry codes and the range of opinion in regard to good industry practice leave AFS Licensees in much the same position as a US journalist in North Korea.

Such a rough form of justice may be acceptable for small disputes, but surely a higher standard of justice would be more appropriate for large compensation claims.

I suggest we need some meaningful industry standards by which advice can be judged – specific criteria as required by RG 139.151, but not yet developed. Currently, it is hard to know what criteria FOS uses and the FPA has been reluctant to develop criteria.

1. The role of financial advisers

The term "financial adviser" is not defined and use of the term is not restricted. This is a problem in itself, but irrespective of how the term is defined I think it is a mistake to think in terms of financial planners as having a specific "role".

I think a more useful approach is to recognize that the financial planning industry has evolved over the past 25 years to meet the demand of consumers. This is the way the market place works.

It should also be recognized that consumers are not all alike and the differences between them creates market niches and these niches give rise to different types of financial advisers. That is, there is no specific role for financial advisers other than the role to which they and their clients agree and these roles may vary according to the business model of the financial adviser and the needs/wants of the each client.

In understanding these roles I think it is worth considering the factors which have contributed to the demand for financial services by consumers. These factors include, but are not limited to the following.

- <u>Our complex and ever changing legislative framework</u>
    - In particular, taxation, social security, and superannuation laws have become beyond the comprehension of most people.
    - Ignorance of the law may result in financial disadvantage.
    - Also laws in respect of privacy and anti-money laundering have increased the difficulty in dealing with investment managers. (e.g. One major superannuation fund now has a withdrawal form that is 9 pages! It is all becoming a bit hard for many people)
    - If the laws were simpler, more stable, and fairer there would be less need for financial planners.
    - It makes sense to pay someone for advice and for assistance.
- <u>Shift from defined benefit superannuation</u>
    - Over the past 25 years employers have moved away from offering defined benefit schemes. This is because employers – including the government – have recognized the risks associated with offering employees the security of defined benefits and generally they have chosen to transfer all risk and decision making to the employees.
    - Given the risks associated with investing and the complexity the investment environment it makes sense to pay someone for advice.
- <u>Compulsory superannuation</u>
    - The SGC was essentially a trade-off between increased wages and compulsory savings. This forced savings has contributed to many people having more money than they would otherwise have
    - The bigger a person's savings the more reason to pay someone for advice.
- <u>The 3 pillars</u> (Superannuation, other savings, social security safety net)

- By highlighting that the age pension is only intended as a safety net the Government has drawn attention to the need for individuals to save for their retirement.
- It is to be expected that people who want more than the age pension in retirement will pay someone for advice.

- Choice of superannuation fund
  - The decision to give consumers choice of superannuation fund has made consumers more responsible for their own circumstances. This gives consumers an increased range of opportunities and while simultaneously exposing them to the risk that they may make a poor decision.
  - It is logical that these people will pay someone for advice.
- Cost saving by large entities
  - Many large entities have chosen to reduce their own costs in ways which make it very difficult and frustrating for many consumers – particularly the elderly - to interact with them.
  - It is to be expected that many those people would prefer to pay someone for ongoing, personalized advice and help rather than try to work through the long telephone queues, offshore call centre, websites, etc.
- Desire to make their money "work smarter"
  - It is natural for people to want their money to work hard for them with out taking undue risk, but many people recognize that they lack the knowledge and experience to make sound investment decisions.
  - It is logical that these people would pay someone for advice.
- Media
  - The media actively covers its own backside by recommending that no one should rely upon the media content, but that consumers should refer to their financial planner.
  - This further encourages consumers to pay someone for advice.
- Longevity
  - Younger folk are concerned about saving for what could be a very long retirement.
  - Older folk need help coping with the complexity of our investment environment.

Given that the dollars involved are substantial it is hardly surprising that the financial planning industry has evolved to supply products and services to satisfy consumers and it hardly surprising that "financial advisers" are not all the same. Broadly financial advisers' planners could be categorized as being either

1. **Businesses** which provide financial product advice. These businesses employ staff who act as the representatives of the business and the business either:
   a. has its own AFS Licensee, or
   b. is the authorised representative of an AFS Licensee.
2. **People** who are either representatives or authorized representatives of AFS Licensees and who meet with clients and who are provide financial product advice; and
3. **Other entities** that may refer to themselves as financial advisers and which may be seen by clients as financial advisers, but who do not give financial product advice.

Financial advisers may also be categorized in terms of the extent to which they tend to promote a specific brand of product.

- Those that tend to promote a single brand could be described as **distribution channels**. These "advisers" are often owned/controlled by product manufacturers, but some independently owned AFS Licensees may also act as distribution channels. The key characteristic of a distribution channel is that its role is to satisfy consumer demand by providing advice as to how the consumer may make best use of the product range that it distributes.
- Those advisers which do not tend to promote a single brand could be described as **independent advisers**. The key characteristic of the independent adviser is that its role is to satisfy consumer demand by providing advice that is not biased by ownership or other factors which would lead it to act as a distribution channel.

That is, **an important issue from a consumer perspective is that some financial advisers base their advice around a specific product range and others do not.**

A second important issue is that it is often difficult for a consumer to distinguish between a financial planner that is a distribution channel and a financial planner that is genuinely not focused on selling a particular range of financial products. This is despite the fact that financial planners are required to disclose factors that may influence their advice. It seems this disclosure is often ineffective and compliance with this disclosure requirement is ineffectively policed.

It is also difficult for consumers to identify distribution channels as their names are often very different to the names of their parent company. For example, I understand that the following AFS Licensees are owned/controlled by major financial product manufacturers.

- Millenium3 Financial Planning
- Garvan Financial Planning
- Charter Financial Planning
- Financial Wisdom
- Securitor
- Genesys
- Hillross Financial Services
- Retireinvest
- Financial Services Partners
- Godfrey Pembroke Financial Services
- Industry Fund Services
- Magnitude Financial Planning

The extent to which the financial product manufacturers dominate the distribution of financial product is illustrated by Appendix 1 which lists the Top 100 Dealer Groups. "Top" is not measured in terms of quality, but in terms of number of advisers. This list shows who owns them, how many advisers they control, how much money they have under management, and how many offices they have. For example, Appendix 1 shows the "Top" dealer, Professional Investment Services, is owned by Aviva, it has 1,436 advisers, operating from 1,203 offices, serving 600,000 clients, and having $18,200m funds under management.

I am not suggesting that the advice provided by distribution channels is inappropriate, but I am suggesting that they may have a strong bias towards providing advice that recommends purchase of their parent's products. This bias can influence both strategy (e.g. gearing) and product choice. The extent of this bias is illustrated by Appendix 2 – an article from IFA magazine, 06/04/2009, which states:

> *"Sales allocated by financial planners to products of the parent group increased from 70 per cent to 74 per cent in the 12 months to September 2008, according to Roy Morgan Research"*

My own view is that consumers should be made aware of this bias at the outset of dealings with the financial adviser in the same way that when consumers walk into the show room of a car dealer they know the range of products they are likely to be offered, but this does not always seem to be the case. Australian Financial Review 8/12/08 article by Barrie Dunstan "Super investors content for now" reports that:

> *"the latest figures from large-scale research by Roy Morgan Research also shows that most people who go to an advisor tied to one of the big financial groups continue to be stuffed with funds managed by the parent group – and in many cases may be unaware of the ties".*

Also, I do not mean to suggest that advice given by independently owned financial planners will necessarily be better than advice given by distribution channels. My own view is that consumers need to be aware that when they deal with independently owned financial advisers they are often dealing with small companies. This has advantages and disadvantages. These differences have been summarized on the Boutique Financial Planning Principals Groups website http://www.bfppg.asn.au/smallvbig.htm .

It should also be noted that advice is not only biased by ownership, but that bias is purposely created by some product manufacturers and some independently owned financial advisers will tend to recommend certain product ranges. This tendency may be soundly based or it may be the result of incentives given by financial product manufacturer to sell their particular product. Such incentives may include higher than normal commissions and marketing assistance. While it is not unreasonable for financial product manufacturers to market their product either by their own distribution channels or by providing unusually large incentives to sell their product it does seem potentially misleading and deceptive for entities which are essentially in the business of distributing a particular brand of product to market themselves as "financial advisers" or "financial planner" when the truth is that they are selling a product.

It would seem reasonable that the public ought to be able to very easily distinguish between those that are distribution channels – either by ownership or by receipt of unusually high incentives – and those that are not so biased. This conclusion has been reached by FSA in the UK which is seeking to create a regulatory environment to ensure consumers can distinguish between independent investment advice and financial product sales. At least if the public were aware that an entity had such conflicts they would be more vigilant in assessing the advice given by the business.

Sir Anthony Mason has summed up the manner in which our licensing arrangements are contrary to consumers' interests by saying:

> "*Indeed our system enables a product seller to adopt the disguise of a financial adviser and endows that disguise with the aura of legitimacy by calling him a 'licensed' financial adviser."*

In 2003 ASIC Commissioner Berna Collier also supported this issue of distinction between sales and advice when she said:

> *"This is an important point. If there is no distinction between advice and distribution then this survey will have the same results in a few years time. If a financial planner wants to be called a financial planner, but cannot clearly demonstrate to consumers that they earn your money through sensible and strategic advice, and that instead they simply exist to distribute commission-paying products, the problems of conflict of interest will not go away."*
>
> Source: http://www.asic.gov.au/asic/pdflib.nsf/LookupByFileName/AIAspeech_120603.pdf/$file/AIAspeech_120603.pdf

Disclosure does not seem to have worked. This seems partly due to the manner in which disclosure is made and partly because many people do not have the financial literacy to understand the implications of disclosures.

Recommendation 1.1 A possible solution is to define two categories of entities. (e.g. Distribution channel or Adviser) Such distinction would probably be sufficiently well reported by the media that clients would soon become aware of these two categories. Clients could then simply ask the entity if it was a Distribution channel or an Adviser. (Consumer awareness of the categories and their advantages and disadvantages of each could be addressed in financial literacy programs.)

Recommendation 1.2 Another solution would be to require advisers to disclose in what ways, if any, they did not meet the Corps Act s923A definition of independence. If this were required to be disclosed in a standardized format it would be less easy for financial advisers to hide their disclosure and the public could be educated to look for the disclosure.

Recommendation 1.3 While there may be legitimate reasons for “high” commissions just as there may be legitimate reasons for high fees, perhaps added protection could be given to consumers by requiring that the maximum commission payable (plus any other incentives) should be displayed clearly on the front of a PDS.

2. The general regulatory environment for these products and services

When the tide goes out you can see who is naked.

Similarly the Global Financial Crisis has revealed that regulatory environment has not prevented consumers from being ripped off by dodgy products and poor advice. There are clear instances of both.

However, it should also be recognized that the general regulatory environment cannot totally protect consumers from risk. The nature of our economy is such that one must expect that some businesses will fail completely and that the value of investments may fall substantially. That is, investing involves taking risks and sometimes investors will lose money. This is a fact of life which must be traded off against the risk of losing purchasing power due to inflation if one does not invest. There is no “safe” option.

This is not to say that regulations are perfect. For example, the Corporations Act leaves consumers extremely exposed to the risk of poor advice. It does this by allowing AFS Licensees to authorize Representatives who may have very little education (RG 164) to give financial product advice, but the way the Corporations Act is worded it seems that the AFS Licensee takes minimal responsibility for the advice. Typically, when something goes wrong the adviser becomes the scapegoat, but there may be many contributing factors to the actions of the adviser (e.g. ineffective supervision, low level of training, too much autonomy given to inexperienced people, poor corporate culture, etc.) Perhaps the AFS Licensee is really at fault.

Obviously, some instances of very poor advice result in complaints to FOS and the AFS Licensee may have to pay compensation for losses, but not all poor advice leads to compensation.

ASIC Commissioner, Prof Berna Collier has stated in respect of a shadow shopping project that:

> *“Thirty percent of bank plans were ‘Poor’, partly due to the frequent absence of an ASG.”*

Source:

http://www.asic.gov.au/asic/pdflib.nsf/LookupByFileName/AIAspeech_120603.pdf/$file/AIAspeech_120603.pdf

Perhaps, if the management of the banks were more directly accountable they would revise their systems and procedures so as to raise the quality of the advice given by their representatives to consumers.

Recommendation 2.1 Rather than trying to convince consumers that the market is safe and that financial advisers are professionals I suggest that consumers need to be given realistic expectations about markets and financial advisers.

Recommendation 2.2 Introduce a form of prudential guidelines which are characteristic of what would normally be considered good advice and some boundaries which would tend to be associated with poor advice. These guidelines could be along the lines of the following, but should be determined via a consultative process and reviewed on an ongoing basis.

- Limit on exposure to agri-products
  - No more than 5% of a clients money in any agri-product
  - No more than 15% in agri-products in aggregate.
- Borrowing for investment
  - Not suitable for pensioners or retirees or people who plan to retire within 5 years.
  - Debt should be less than XXX times a client's income
  - Interest on repayments should be less than YYY% of the client's income.
- Mortgaging the family home
  - Not recommended
- Acting as guarantor for others
  - Not recommended
- Eggs in one basket
  - No more than 15% in a single undiversified investment such as a property trust, listed company, or non-bank fixed interest investment (e.g. Westpoint, Fincorp)
- Commissions
  - No more that ZZZ% up front
  - No more than zzz% trail commissions

Recommendation 2.3 Introduce a system of exception reporting such if a financial adviser saw good reason to breach the prudential guidelines the adviser would need to report this breach to some supervisory body (e.g. the Responsible Manager of his/her AFS Licensee, the FPA, ASIC, a professional standards board not yet created). That is, the prudential guidelines would not be so rigid that they would restrict advice, but they would act as guides to advisers and trigger alarms for whoever is responsible.

Recommendation 2.4 Amend the Corporations Act to make the AFS Licensee, its director(s) and its responsible Manager(s) more accountable for the advice given by Authorised Representatives. Currently, it seems too easy for AFS licensees to set up policies and procedures for training and supervision which give the appearance of having substance and offer protection to managers, but which are ineffective. What I am suggesting is that the people who manage the AFS licensee should be accountable for the ineffectiveness of their training/supervision. Perhaps such accountability would lead them to be more diligent.

3. The role played by commission arrangements relating to product sales and advice, including the potential for conflicts of interest, the need for appropriate disclosure, and remuneration models for financial advisers;

It is seems that high commissions have induced some financial advisers to sell some financial products that most other financial advisers would not recommend. It is also seems that some representatives and authorized representatives may have been induced by salary, risk of losing job if targets are not met, bonuses, commissions, and other incentives offered by their AFS Licensee to sell these products. To this extent high commissions and other sales incentives have led the public into dangerous territory and some have been burned.

However, my own view is that the vast bulk of advice provided to consumers is not influenced by commissions. This view is based on the following reasons:

- Much of the advice is given by distribution channels. These advisers are focused on distributing their parent company's product and are not interested in promoting anyone else's products.
- The free market has led to commissions offered by mainstream financial product manufacturers being very similar. Thus, commissions generally do not create a significant conflict of interest.
- The free market has led to many financial advisers rebating some or all of the commissions offered by product manufacturers. Such rebates remove the conflict of interest.

If the bulk of advice were driven by commissions the bulk of money would flow to the products which pay the highest commission. This is clearly not the case. However, it is equally clear that there have been some instances where it appears that some financial advisers have been driven by high commissions to provide advice which rewards them very well while exposing the consumer to a high level of risk.

I am also aware of the following comments made ASIC Commissioner, Prof Berna Collier, to the Australian Investors' Association Annual Conference, 12 June 2003 in which she outlined the results of the financial planning shadow shopping project.

> *"The overall result was worse for planners who were paid only by commission. Forty-four percent of the 'commission only' plans were in the 'Poor' or 'Very Poor' categories. Further, fifty-two percent of the 'commission only' plans scored 'Poor' or 'Fail' for the scoring item 'Overall appropriateness of advice', compared with twenty-one percent of 'fee only' plans and twenty-six percent of 'fee and commission' plans."*
>
> *"The judges in our survey commented that many plans looked like commission driven product selling, not impartial advice. 'Commission only' plans did much worse than others in our survey, with 44% graded 'Poor' or 'Very Poor'. The remuneration system is not just a theoretical argument if it is affecting the quality of advice or reducing the industry's efficiency. Some people argue that commissions are irrelevant, as commissions are similar between comparable products. However, strategic and product recommendations can have a big impact on commissions."*

Source:

http://www.asic.gov.au/asic/pdflib.nsf/LookupByFileName/AIAspeech_120603.pdf/$file/AIAspeech_120603.pdf

Clearly, Prof Collier has had access to far greater data than I and perhaps I am wrong, but I am less than convinced that the data shows that commissions are **the** major issue.

The major issue I see in the data is that 51% of the advice sampled in the shadow shopping project was of borderline quality or worse!

I see this result as raising two sets of questions.

Firstly, is it possible that there is some fundamental difference of view between what ASIC considers to be good advice and what a well-trained, experienced and honest financial adviser would consider to be good advice? I have always presumed that we would all broadly agree about the quality of advice, but it is something which the industry has not meaningfully discussed and ASIC has never shared its views about the quality of advice. To date, discussion has focused more on the process of giving advice. There has been an implicit assumption that a good process will lead to good advice. However, it is not hard to tick the boxes and demonstrate compliance with a "good" process and produce dodgy advice.

Secondly - assuming ASIC's grading of the advice is reasonable - there appears to be a systemic problem that goes way beyond remuneration. This is not to say remuneration may not be part of the problem, but I suggest that a more fundamental problem is that many AFS Licensees are failing to meet their training and supervisory obligations and many representatives lack integrity and/or competence. If this is the case I think we would be kidding ourselves if we thought that changing from commissions to fees is going to have a significant impact on the quality of advice. A dodgy business may simply replace commissions with a "fee" structured to provide incentive to recommend dodgy strategies and dodgy products.

If we are to protect the interests of consumers I think we need examine the diligence of the AFS Licensee in respect of:

- training their representatives and para planners;
- supervising their representatives and para planners; and
- creating an appropriate corporate culture.

Perhaps diligence in these areas would improve if the responsible managers and directors of the AFS Licensees were held more accountable for the advice given by the people whom they have authorized to provide financial product advice to consumers?

Furthermore, while I appreciate that the mood of regulators and media is swinging against all commissions, I suggest there is merit in considering whether banning all commissions would be in the best interests of consumers. My own view is that banning commissions may have unintended negative consequences for consumers. In particular, trail commissions are a highly efficient form of remuneration whereas fees are relatively expensive to administer and any increase in costs must be passed on to consumers. Moving to fees may have minimal impact on large clients as the administrative cost may be small relative to their assets and their total fees. However, for small clients who require minor assistance from time to time the administrative component of the fee may be quite high. I would be pleased to elaborate on this, but essentially I think that if trail commissions were banned ongoing fees would tend to rise, the ongoing relationships between advisers and their clients would weaken, and some small clients would be dumped by their advisers. Trail commission may not be ideal, but they avoid the costs of dialogue around "How much is this going to cost me?" and providing quotes.

I urge decision makers to get some data before they make decisions about banning trail commissions. In particular, I urge decision makers to conduct a survey of fee based financial planners to determine the typical ongoing fees charged for clients with say $50k, $100k, $250k and $500. This would indicate the fees that consumers could expect to pay for on-going advice if trail commissions were banned.

<u>Disclosure of my conflict of interest:</u> My own business rebates 100% of up-front commission and retains 100% of trail commission, none of which is greater than 0.6%pa.

Recommendation 3.1 – Initiate open discussion about what constitutes good advice and poor advice to see if there are significant differences of opinion.

Recommendation 3.2 – Investigate the apparent failure of AFS Licensees to train and supervise their advisers.

Recommendation 3.3 - Conduct a survey of fee based financial planners to determine the typical ongoing fees charged for clients with say $50k, $100k, $250k and $500.

4. The role played by marketing and advertising campaigns

Marketing has many components and advertising is one of these components. Essentially, all marketing is directed towards selling products and services. Companies spend a great deal of money on marketing for the simple reason that they want to influence consumers to buy their products and services and they believe the benefits of marketing will outweigh the cost of marketing.

Some will argue that advertising is about providing consumers with information that will help them to make informed decisions, but if one looks at the level of information provided it generally seems more about branding, reinforcing brand recognition, creating perceptions, and positioning a brand in the mind of consumers. None of which has anything to do with helping consumers to make informed decisions. It is just what businesses do to sell products and services.

Recommendation 4.1 Advertising should be squeaky clean honest. It should pass the "smell" test rather than merely pass the standard legal requirements and the false, misleading, and deceptive tests should be applied rigorously.

5. The adequacy of licensing arrangements for those who sold the products and services

The current licensing arrangements are a bit like a company being licensed to run a medical practice and once licensed being allowed to authorize people with minimal training to be doctors.

This arrangement has worked reasonably well as most AFS licensees seem to have been reasonably competent and diligent in training and supervising their representatives.

However, the combination of this licensing arrangement with the minimum educational standard creates the perfect environment for rogue AFS Licensees.

> For example, a rogue AFS Licensee may boost profit and business value by recruiting skilled sales people who have minimal training, experience, or ethics to act as Authorized Representatives. Such people may be prepared to accept incentive based remuneration such that the AFS Licensee can expand without increasing fixed overheads. The net result could be an AFS Licensee that has a highly incentivized sales force that has minimal training or supervision. The corporate culture of such an organization could be based on greed and reckless disregard for the well-being of clients and newcomers to the industry may be led to believe that this sort of behaviour is normal.

Given the nature of the licensing arrangements it is surprising that such examples do not seem to attract the attention of the media – even though the shadow shopping data indicates that they are very common. I guess the media prefers to avoid action that is likely to lead to litigation. Having been threatened with legal action by a major institution after an article I wrote I can understand why no one is particularly interested in drawing attention to dodgy products and dodgy AFS licensees. There is no upside, but plenty of downside. Thus, consumers are left unaware.

We would have a far better understanding of the extent to which licensing arrangements may have led to poor advice if we knew more about the underlying causes of complaints by consumers. For example, if we knew the extent to which factors such as:

- inexperience
- low levels of training
- poor supervision
- organizational culture
- conflicts of interest
- etc

had been the underlying cause of complaints we would have better understanding the specific action that would be most appropriate. Such knowledge would also help us to review the effectiveness of our actions. I presume that this is what ASIC had in mind when it wrote RG 139.83 which requires FOS/FICS to collect data about the underlying cause(s) of complaints.

Recommendation 5.1 - Change the licensing arrangements. (There are various possibilities that would be better than the current arrangements.)

Recommendation 5.2 - Enforce RG 139.83 and make the data collected publicly available.

Recommendation 5.3 – Think seriously about RG 146.

Note re RG 146 - How many women do you suppose would go to a hairdresser who had training comparable to the level required by RG 146? Maybe it is not necessary to raise the standard set by RG 146, but if it is not raised AFS Licensees ought to be held more accountable for failing to properly train and supervise the people whom they authorize to act on their behalf.

For example, in the same way as a new apprentice hairdresser may be able to answer the phone, sweep the floor, and wash hair, so too an RG 146 representative should be able to perform minor tasks under supervision. However, letting an RG 164 representative give financial planning advice is the equivalent of letting a hairdressing apprentice with 2 weeks experience cut, colour, and perm hair. It is hardly surprising that we have some “bad hair days” in the financial planning industry.

The standard of training required by RG 146 is not necessarily a problem. So long as representatives are well supervised and trained appropriately for the work they are allowed to do the lack of initial training may be properly compensated for by close supervision, and mentoring.

On the other hand, the low entry level creates a significant public risk in that the licensing regime depends hugely on the competence, diligence, and integrity of the AFS Licensee. If the AFS Licensee fails to properly carry out its duties, the public is at risk. In particular, if the AFS Licensee is in the business of selling product then it may appoint poorly trained people and teach them little more than how to sell product. This is a risk to the public. Also, RG 146 training requirements are so low there is risk that unscrupulous AFS Licensees will lead inexperienced representatives astray. If the RG 146 requirements were raised substantially above the current level representatives may be better placed to judge the quality of their AFS Licensee.

On balance there is a place for representatives who have had very little training – but a lot of supervision – e.g. representatives who sell simple products like home insurance. But these representatives need to be labeled as salespeople to ensure that consumers understand that they are not financial planners. Before a person holds themselves out to be a financial planner they ought to have sufficient training and experience that they do not need ongoing supervision and consumers can rely upon their ability.

6. The appropriateness of information and advice provided to consumers considering investing in those products and services and how the interests of consumers can best be served.

The prime objective in providing information to a consumer is to lead the consumer to make a decision from which the supplier of the information will profit. This applies to:

- advertisements,
- brochures,
- Financial Services Guides (FSGs),
- Statements of Advice (SOAs), and
- Product Disclosure Statements PDSs).

This bias makes it very difficult for the consumer to assess the quality of the information provided.

Some information also contains large amounts of generic information which is often difficult to read and may not be applicable to the consumer. Much of this information is provided more to cover the backside of the provider than to inform the consumer and it is often written in such a way that many consumers do not read it carefully or understand the implications of what is written. Many consumers lack the time, interest, or expertise to properly digest the volume of information they are given.

Our regulatory environment seems to be based on the assumption that the public is best protected by disclosure of all relevant matters such that the consumer can make an informed decision. My own view is that this assumption is seriously flawed. This is because investing is tricky. It involves making judgments in a complex environment where nothing is certain. It requires a depth of understanding of markets, history, statistics, economics, and legislation that comes with training and experience. Many consumers lack the knowledge and experience to make sound judgments. It is unrealistic to expect a financial planner to provide the huge volume of information that would enable a consumer to make an informed decision and it is unrealistic to expect a consumer to read and comprehend everything that is provided. It is therefore difficult for a consumer to make a truly informed decision.

To me this suggests a need to rebalance the focus towards ensuring the advice is good rather than ensuring that information is provided. As always I might be wrong, but I think the shadow shop data supports my view in that it indicates that a large portion of advice given is poor, but consumers seem unable to recognize that the advice is poor. Thus, the information consumers are given does not seem to help them make informed decisions.

There are also many examples of the ineffectiveness of disclosure. That is, despite information being given to consumers it seems that many fail to read the information or fail to understand the implications of the information. Following are a few examples in which illustrate the difficulty faced by consumers.

- Many consumers are not unaware that their financial planner acts on behalf of a product manufacture. This is evidenced by the following statement Barrie Dunstan in the Australian Financial Review, 8/12/2008:
    - "Morgan's poll also raises questions whether clients realise some financial planners, though not carrying the parent brand, are part of a larger group. Clients can identify 'tied' planners using the parent name but fail to identify other members of the group trading under other names. So 69 per cent of people identify an AMP agent as 'tied' but only 49 per cent knew that a Hillross planner was tied to AMP. There were similar results the NAB-MLC Group carrying Godfrey Pembroke and Apogee's brands, in Commonwealth Bank of Australia for Financial Wisdom, AXA's Charter and ING's Retireinvest. More worryingly, significant numbers of clients of AMP (28 per cent of the survey) and AXA (31 per cent) still told pollsters agents carrying the parent brand on their offices or business cards were 'independent' financial planners."

- Many organizations require consumers to agree to lengthy terms and conditions that have been prepared by the organizations' solicitors. The demands come not only from financial product manufacturers, but from a wide range of businesses including banks, airlines, software manufacturers, websites, etc. Consumers really have little choice. They have come to accept that if they want a telephone, electricity, a bank account, and a host of goods and services they must accept the terms and conditions of the supplier. They have zero negotiation power with suppliers and most suppliers seem to play by the same rules. Their only choice is go without the service or accept the terms and conditions. Consumers have become so accustomed signing things or ticking boxes to indicate acceptance that many do not consider the legal ramifications of their actions. This may not matter in most circumstances, but it has created a culture of good faith and trust on the part of the consumers which is occasionally betrayed by suppliers.

- I understand that many Storm Financial clients signed every page of SOAs to confirm they had read the SOA, but did not seem to understand the implications of the words on the pages or their signatures. What were they thinking when they mortgaged their homes? Did they not realize that this is how banks transfer risks to consumers?

- The Fincorp prospectus that offered "First ranking notes and unsecured notes" and lodged with ASIC on 30 May 2006 made it clear that:
    - <u>Fincorp was on the brink of collapse</u>. (Page 44 of the prospectus showed that Fincorp's Net Assets as at 30/6/05 were **minus $15m**; and

- Fincorp was operating a Ponzi scheme to try to stay afloat. (Page 4 of the prospectus showed that money lent to Fincorp could be used to:
  - "lend to the Fincorp Property Development Group",
  - "to meet Fincorp Group Expenses"
  - "payment of redemptions to investors" and
  - "payment of interest to investors".

- Currently there is fixed interest prospectus that offers 9% for 12 months and 9.9% for 5 years.
  - It is offered by a small company
    - total assets about $13.6m
    - total liabilities of about $12.1m
    - issued capital of $3.1m, and
    - accumulated losses of $1.6m.
  - This company is in the business of borrowing money and lending money.
  - The interest rate it charges is indicated by 2008 accounts which show it received $2.2 in interest versus interest expense of $1.2m. That is, last year it seems to have charged about double what it paid investors. Probably close to 17%. This indicates something about the borrowers.
  - Their Loan to Valuation Ratio (LVR) can go to as high as 85% and much of the security they have is 2nd mortgage. 2nd mortgages are a bit like gearing - they give you extra return or extra capital loss. If the valuations were a bit high or if property values fall the level of security may be inadequate.
  - As at 30/06/08 about one third of the portfolio was in default! Goodness knows what proportion of loans are in default today. Also, although the PDS indicates that management expect to recover principal and interest I wonder if this can be relied upon. There is no indication of the basis for their expectation.
  - The PDS mentions that the company may pay brokerage, commission and/or procurement fees" but does not mention how much.

Clearly, many consumers do not have the capacity to extract and digest such facts from the information they are given.

Similarly, the Statements of Advice provided to clients are often difficult to read. One reason for this is they are also often designed to sell. A second reason is that they often contain a large amount of generic information which is included in an effort to comply with a legislative, regulatory, and enforcement environment that has created a great deal of uncertainty in terms of what is required in order to protect oneself against complaints and compensation payments.

The extent of the uncertainty as to what is required is illustrated by the following comments made by the FPA in media releases and its October 2008 submission to FOS in regard to the Terms of Reference.

> "Ms Bloch said the FPA supported the concept of an external complaints resolution scheme but members had concerns about FICS processes."
>
> Source: FPA Media release, 26 Jul 2007
> *"FPA urges caution on PI and FICS"*

> " … we are still uncertain as to how FICS arrives as its determinations. Until we understand these sorts of critical issues our members will be opposed to any increase in monetary limits"

Source: FPA Media release, 26 Nov 2007
"*FPA response to FICS monetary limits increase"*

"4.6.3 Transparency and process
Before any consideration to increasing the FOS monetary limits, issues of the EDR scheme's transparency and processes need to be addressed. There is a significant concern amongst FPA members that the FOS processes do not provide sufficient transparency for providers to assess the quality of and reasons for decisions.

A sizeable proportion of the FPA's membership recently surveyed hold the view that FOS limits should not be changed without significant improvements in process and transparency. The FPA supports its members in highlighting the need for greater consistency of decision making, improved transparency in its findings, and further attention to be given to the valid concerns raised by licensees, particularly small licensees. These concerns have led to a general lack of trust across the industry in the EDR scheme.

The merger and establishment of FOS provides a significant opportunity for the scheme to address the very real concerns about the transparency of the EDR process and decisions, and to regain the industries' confidence in its operation. As stated previously, principle 1 of the Issues Paper states that the "regulator expects a genuine merger with a genuine potential for improvement". We strongly encourage FOS to ensure this improvement occurs at both the Governance (Terms of Reference) and operational level.

While the FPA acknowledges the considered efforts the FOS ILIS Division has made in this regard, we believe there is still a need for substantial improvement. The FPA would welcome the opportunity to work with FOS to continue to address these issues and to improve the operation of the EDR scheme for the benefit of all parties."

Source: FPA submission to FOS, October 2008
Financial Ombudsman Services' Terms of Reference

The above quotes make it clear that for some time the FPA has been concerned about FICS/FOS and that these concerns remained as recently as October 2008.

I also draw your attention to the following recommendations made by the FPA in its October 2008 submission to FOS:

11 - Before any consideration to increasing the FOS monetary limits, issues of the EDR scheme's transparency and processes need to be addressed.

21 - The FPA recommends the FOS determinations provide detailed reasons explaining why FOS considers the financial planner is at fault.

22 - The FPA recommends the awarding of compensation for non-financial and consequential loss be excluded from the EDR jurisdiction.

26. The FPA recommends FOS clearly identify and provide regular reports to members giving detailed information on the underlying causes of complaints.

27 - The FPA recommends the transition to the new Terms of Reference or any increase in the monetary limits should be sufficient for FOS to:

- ensure affordable and appropriate professional indemnity insurance will be available to all scheme participants;
- address the issues of transparency and process;
- develop and publish 'specific criteria' for decision making; and
- identify an appropriate formula to determine the validity of any monetary increase.

5.2.4 The FPA recommends additional provisions should be included in the FOS Terms of Reference which require FOS, the decision making Panel and the Ombudsman, to

> take into account the severity of the cause of the inappropriate advice, misrepresentation or nondisclosure, as well as the role of the complainant and other parties, in its consideration of financial advice disputes. The FPA strongly believes the FOS decision and compensation should be commensurate with the action/inaction of the financial planner.
>
> Source: FPA submission to FOS, October 2008
> *Financial Ombudsman Services' Terms of Reference*

So long as AFS Licensees are kept in the dark about what FOS really requires it is to be expected that AFS Licensees will continue to produce lengthy SOAs.

Recommendation 6.1 - There needs to be ongoing and open discussion in which ASIC and FOS share their expectations and the concerns of the industry. The outcome of this discussion should be a clear understanding of what ASIC and FOS consider the law requires in an SOA.

Recommendation 6.2 - Perhaps the manufacturers of financial products need to take greater responsibility for identifying the appropriate use of the products they distribute. (Consumer protection law typically says that a product should be fit for the purpose, but with financial products the manufacturer seems to bear virtually zero responsibility for the product or for identifying the circumstances for which a product is suited.

Recommendation 6.3 Perhaps in the same way as drugs must be approved before being marketed perhaps financial products ought to be assessed. For instance, I doubt that the Fincorp PDS would ever have been approved if someone had been made responsible for approving it.

7. Consumer education and understanding of these financial products and services

The purpose of a PDS has little to do with informing the public.

The true purpose of a PDS is to sell a financial product – subject to the constraints of:

- meeting legal requirements; and
- covering the backsides of management.

The PDS is a carefully crafted document. Its authors typically include specialists in marketing, communication, and law. It is hardly surprising that the public – most of whom have no training in law, economics, maths, or accounting – have difficulty reading a PDS. It should be recognized that:

- Reading a PDS is not just a matter of merely reading from start to finish – it requires a certain skill to understand the implications of what is said and an ability to read between the lines to comprehend the implications of what it does not say.
- A large proportion of the population do not have the mental capacity to assess a PDS.
  - 50% of the population have an IQ less than 100.
  - Even very intelligent people often do not have the training or street sense to know how to read a PDS.
  - Even those who think they understand all they need to know run the risk of not knowing what they do not know

Also, it should be recognized that it is very difficult for a consumer to comprehend a Statement of Advice.

If consumers want to avoid financial disaster they should consider the following basic rules of financial literacy suggested by the Boutique Financial Planning Principles Group

- If it looks too good to be true it probably is.
- If you don't understand it, don't buy it.
- Don't put too many eggs in the one basket.
- Don't mortgage your house unless you are prepared to lose it.
- Goldilocks test - make sure it is "just right" for you.
- If you are not 100% confident then seek a second opinion from someone who is qualified, experienced, and not paid to sell you a specific product."

(Source: http://www.bfppg.asn.au/consumers.htm **)**

These rules are not tricky. But next time you hear that someone has lost a bucketful of money please consider if they have broken one or more of the above rules. If the Government could raise the consumers' awareness of such rules perhaps the most devastating losses could be avoided.

Recommendation 7.1 - Rethink the approach to financial literacy. If financial literacy is a serious issue it should be given serious consideration.

8. The adequacy of professional indemnity insurance arrangements for those who sold the products and services, and the impact on consumers

Professional indemnity was never intended to be a compensation scheme for consumers who have lost money. It is intended to protect businesses.

I think part of the solution to compensating consumers is the recognition that existing PI requirements will generally be more than adequate for financial advisers who generally give good advice, but inadequate for financial advisers who generally give poor advice. That is, PI will protect consumers of good financial advisers, but it will not protect clients of poor financial planners.

This raises the question of how can consumers be protected against poor advice by poor financial advisers. For example, imagine a rogue AFS Licensee that has a recruited a team of sales reps to flog high commission products and that one of these products collapses. If FOS deems the AFS Licensee to have breached its duty of care, etc. then the AFS Licensee may be ordered to pay compensation for all money lost by clients. The compensation could be vastly beyond any realistic level of PI cover. This risk is increased if the AFS Licensee has encouraged high levels of gearing.

I think answer to consumer protection lies not so much in creating a big pot of compensation money as this would raise the cost of advice to all consumers. Instead I think the answer lies in creating an environment in which it is difficult for dodgy advisers to exist. If all dodgy advisers were driven from the industry PI would probably be perfectly adequate.

There are numerous things that could be done which do not involve raising the bar for everyone which would unnecessarily add to consumer costs and the expectation by consumers of compensation in the event of a loss.

I think we must also recognize that people should not always be compensated for losing money. Sometimes people will lose money and it is no one's fault it is just the way the cookie crumbles.

What consumers need is something that will lift the dirt from the floor.

Recommendation 8.1 – Implement some of the suggestion in this submission.

9. The need for any legislative or regulatory change.

Where do we start?

The Corporations Act is largely good, but it contains elements that are very open to interpretation and which contribute to financial advisers feeling the need to provide long SOAs – it seems safer to include a lot than to risk leaving out something that FOS or a court may consider significant.

- Several years ago ASIC tried to clarify what it thought the Corporations Act meant when it prepared an example of a short SOA, but after industry feedback ASIC seems to have withdrawn from making public comment. This attempt demonstrated how difficult it is to draft a short and compliant SOA under current law.
- The Financial Planning Association has also tried to lead the industry by preparing examples of short SOAs, but financial advisers seem reluctant to prepare such SOAs. My guess is that part of the reluctance to prepare short SOAs stems from the fact that the FPA has not been able to clarify what FOS and the courts think the law requires. Without such clarification financial advisers feel they cannot afford the risk of leaving anything out. A second reason for being reluctant to prepare short SOAs is that it can be more efficient and safer to have a long, generic template for advice than to prepare short SOAs. Under current regulations, the business risks in writing a short SOA are very high. Also refer to the Puzzle Financial 2nd supplementary PJC submission on how to change the regulatory focus from FORM and onto SUBSTANCE.

Also, as discussed above, the licensing arrangements create the ideal environment for rogue AFS Licensees because the rogues can create the illusion of respectability and competence by following the steps required by the FPA and preparing SOAs that are compliant.

Ordinarily the courts would give meaning to the law by its decisions. However, as most complaints are handled by FOS, formerly FICS, the courts have had minimal input. One would have hoped that the determinations by FOS would have clarified the meaning of the law in the same way as a court, but this does not appear to be the case. There is a great lack certainty around such issues as:

- What level of detail is required in the basis of advice?
- What is a reasonable level of gearing?
- What is a reasonable exposure to an asset class or product?
- What is a risk profile?
- If risk profiles are important how should they be determined and how should they be used?
- What is really meant by “clear, concise and effective”
- How should risk be disclosed?

This lack of certainty exposes AFS Licensees to risk and it has contributed to the high costs paid by consumers for advice and the length of SOAs.

After much thinking about the issues discussed above I have reached the conclusion that the licensing system works contrary to the interests of consumers and that it could be amended with minimal cost to Government in a way that would overcome many problems in the industry while facilitating the emergence of a profession.

What I suggest is the establishment of a truly professional body which would have authority to register people as Financial Planners.

- Only those people who met certain standards would be registered as Financial Planners.
- These standards would be determined by the professional body and would include education, experience, and whatever testing or other criteria the professional body determined to be appropriate. (e.g. CFP + degree + 5 years experience + an exam)

- Registered Financial Planners would not be required to work under an AFS Licence as they would be deemed to be sufficiently competent that they did not need the training and supervision of an AFS Licensee.
- People who were not registered as Financial Planners could not use the term financial planner.
- The professional body would have power to de-register Financial Planners.
- Having been Director of the FPA until late 2008 I do not believe the FPA would be a suitable professional body, but suggest a new professional body be created.
- I envisage the professional body being governed by a board that would consist of say:
    - 5 registered financial planners
    - 2 Government representatives (with the power of veto)
    - 2 consumer representatives (with the power of veto)
- I envisage this professional body being a very small organization that would focus on:
    - Registering & de-registering Financial Planners.
    - Maintaining a public register of Financial Planners.
    - Developing meaningful standards for Financial Planners.
- I envisage a need to prevent this board being influenced unduly by parties which have a poor knowledge of financial planning or which may not have the interest of consumers at heart. This would include product manufacturers who are interested in sales and solicitors and compliance experts who often seem more interested in compliance systems than investment. Controls need to be in place to ensure the board is not be led away from doing what it can to ensure that good advice is provided fairly to consumers.

The professional body and the registered Financial Planners could operate in parallel with the existing licensing arrangements such that those AFS Licensees that want to authorize people to act on their behalf could still do so, but the representatives could not call themselves Financial Planners unless they were registered Financial Planners.

A major advantage of this approach would be that becoming a registered Financial Planner would be a big deal. Being deregistered would be an even bigger deal. This would provide huge incentive for registered Financial Planners to act responsibly. By contrast, today there are many people who call themselves financial planners who have made minimal investment in their career and who have little to lose.

It would also make it very easy for consumers to distinguish between Representatives of AFS licensees and registered Financial Planners because only registered Financial Planners could call themselves Financial Planners. Of course there would be some registered Financial Planners who would work for AFS Licensees, but they would be required by the professional body to disclose the nature of their employment.

It would also make it harder for shonky AFS Licensees to exist as the shonks would be unlikely to be able to attract registered Financial Planners to work for them and their representatives would lack the credibility of the representatives of major institutions.

By making it harder for shonky AFS Licensees to exist we could make it hard for shonky products to exist because there would be no one to market them. This would surely cut the number of complaints and PI may be perfectly adequate to meet compensation claims.

The suggested composition of the Board and power of veto would seem to provide a good balance.

- Enough financial planners to provide a good depth of knowledge, experience, and range of opinion.

- Enough government representatives and consumer representative to ensure that consumer interests were well represented.
- Power of veto to ensure that while Financial Planners might dominate in numbers they would not be able to dominate the voting. Thus, the professional body could be largely run by financial planners subject to the supervision and agreement of other stakeholders.

Suggestion 9.1 There ought to be some open dialogue to try to clarify what the law really means.

Suggestion 9.2 Amend licensing arrangements to allow suitably qualified advisers to be “registered Financial Planners” as outlined in this submission.

Planners allocate more to own products

Written by: Wouter Klijn

Financial planners associated with a major funds management group prefer to sell customers superannuation products provided by their parent company, and the level of own-product sales is rising.

Sales allocated by financial planners to products of the parent group increased on average from 70 per cent to 74 per cent in the 12 months to September 2008, according to Roy Morgan research.

Of the six largest financial planning groups – AMP, National Australia Bank (NAB)/MLC, Commonwealth Bank of Australia (CBA)/Colonial First State (CFS), Axa, ANZ/ING and Westpac/BT – AMP has the highest proportion of their planner sales going to their own funds at 83 per cent.

"This proportion has been very stable over the last three years," Roy Morgan said.

Westpac/BT, NAB/MLC and CBA/CFS all have increased the proportion of super products bought through their own financial planning groups, with Westpac/BT showing the biggest increase from 67 per cent to 79 per cent. ANZ/ING was the only group to show a reduction, falling from 46 per cent to 43 per cent.

But a BT spokeswoman said the research did not give an accurate portrait of the sale levels, as external products sold through the BT platform were also counted as BT products.

The spokeswoman indicated the actual level of parent company product sales was more likely to be between 10 per cent and 20 per cent.

Satisfaction with the financial performance of a super product was generally lower among customers who used products that had been sourced from the same fund manager as the planning group than among customers who used external products, the research found.

Only 7 per cent of customers switching super products through these planning groups were directed to industry funds. In contrast, 33 per cent of customers going through non-financial planners ended up with industry funds.

"Neither the big six financial planners nor the other planners are likely to direct [customers who switch super funds] towards industry funds, when compared to funds switched through other channels," Roy Morgan said.

There is still much confusion among customers about the independence of financial planning groups. This was especially a problem if the brand was different to that of the owner. MLC-owned Garvan had the highest level of customers who were under the impression the group was independent, at 66 per cent.

"For customers of planners working for NAB, CBA and Westpac there appears to be a reasonable understanding that they are tied, but those dealing with AMP, MLC, Colonial and Axa have a degree of confusion over the issue," Roy Morgan said.

"Even when the planner comes directly from a major fund manager there is confusion over the issue of independence.

"Twenty-eight per cent using the AMP group think that the adviser is independent – and this is even after they end up with their own products – and 31 per cent of Axa customers think their adviser is independent." «

Money Management

This article appeared in Money Management July 24, 2008

ASTARRA

TOP 100 DEALER GROUPS

Rank		Dealer Name	No of Financial Advisers 16,072	Year Established	PI Insurer	Next Dealer Conference		Shareholder's name	No of offices/ practices 6,046	No.CFPs 2,411	No. FPA members 2,388
2008	2007					Location	Date				
1	1	Professional Investment Services	1,436	1996	Lloyds	Sabah	Sep 2008	Aviva	1,203	n/a	n/a
2	2	AMP Financial Planning	1,294	1991	n/a	n/a	n/a	AMP Life	702	472	n/a
3	3	Count Financial	916	1980	Self insured	n/a	n/a	ASX listed	462	n/a	n/a
4	4	Commonwealth Financial Planning	710	1984	Self/group insurance	Auckland	Oct 2008	Commonwealth Bank	1,000	82	All
5	6	Millennium 3 Financial Services	599	n/a	Vero	Hamilton Island	Mar 2009	ING	286	42	n/a
6	5	Westpac Banking Corporation	543	1986	Chubb Insurance Company of Australia	n/a	n/a	HSBS Custody Nominees (Australia)	38	56	n/a
7	8	NAB Financial Planning	525	1987	Self insured	Sydney	Nov 2007	National Australia Bank	109	110	All
8	9	ABN AMRO Morgans	487	n/a	Aon	n/a	n/a	ABN AMRO Morgans Holdings	53	n/a	n/a
9	7	Garvan/MLCFP	486	1997	CGU	n/a	n/a	National Australia Bank	n/a	n/a	n/a
10	11	Charter Financial Planning	445	2005	CGU	n/a	May 2009	AXA Asia Pacific	173	169	n/a
11	10	Financial Wisdom	444	1987	Self insured	Christchurch	Aug 2008	Commonwealth Bank	190	132	n/a
12	13	Securitor Financial Group	440	1987	Strathearns (broker) CGU (underwriter)	Darwin	Apr 2009	St George Bank	245	170	229
13	14	ANZ Financial Planning	410	1987	AIG	n/a	Feb 2009	ANZ Banking Group .	28	35	367
14	12	Genesys Wealth Advisers	374	2005	AIG	n/a	n/a	n/a	160	129	23
15	15	AXA Financial Planning	361	n/a	CGU	n/a	May 2009	AXA Asia Pacific	204	118	n/a
16	16	Hillross Financial Services	300	1987	Dexta	Sydney	Jan 2009	AMP	104	147	n/a
17	17	Lonsdale Financial Group	275	n/a	CGU	Gold Coast	Oct 2008	DKN Financial Group	105	170	212
18	19	Bridges Financial Services	244	1985	QBE	Queensland	Mar 2009	Australian Wealth Management	61	71	140
19	26	WealthSure	222	2001	QBE	Fiji	Oct 2008	Pawski family trust	130	n/a	n/a
20	20	RetireInvest	218	1979	Allianz	Adelaide	Mar 2009	ING Australia	86	98	n/a
21	18	Suncorp Financial Services	207	n/a	n/a	n/a	n/a	n/a	n/a	10	n/a
22	32	WHK Group	203	1998	Mega Capital	Gold Coast	Oct 2008	National Nominees	17	n/a	n/a
23	21	AFS Group	190	1991	n/a	Egypt	Sep 2008	Advisers	95	80	95
24	22	Godfrey Pembroke	184	1981	CGU	n/a	n/a	National Australia Bank	n/a	n/a	n/a
25	23	Apogee Financial Planning	167	n/a	CGU	n/a	n/a	National Australia Bank	n/a	60	n/a
26	30	AAA Shares & AAA Financial Intelligence	164	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
27	27	Aon Financial Planning and Protection	156	n/a	Vero	Fiji	Mar 2009	Aon	68	15	18
28	25	Guardianfp & Cameron Walshe	GFP 132 CW 22	GFP 2001 CW 1986	Lloyds	Singapore	May 2009	Asteron	4	27	n/a
29	28	AFG Financial Planning	153	n/a	Lloyds	n/a	n/a	AFG	87	25	50
30	24	Financial Lifestyle Solutions	146	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
31	29	Financial Services Partners	145	1999	AIG	Singapore	Sep 2008	ING	83	35	145
32	31	Lifespan Financial Planning	116	1994	Vero	Hunter Valley	Mar 2009	John Ardino & family trust	105	n/a	n/a
33	34	Infocus Securities Australia	115	2003	AIG	India	Oct/Nov 2008	Steinhardt family	46	26	51
34	82	Wilson HTM	112	2004	n/a	n/a	n/a	Wilson HTM Investment Group	n/a	10	11
35	63	Shadforth Financial Group	111	Merger 2008	Dexta	n/a	n/a	Directors and employees	13	63	84
36	35	Consultum Financial Advisers	108	Merger 2006	Chubb Insurance Company of Australia	n/a	Oct 2008	IOOF Holdings & subsidiaries	57	32	n/a
37	38	St George Bank	108	1986	n/a	n/a	n/a	ASX listed public company	360	45	108
38	53	Snowball Group	100	1985	AIG	Las Vegas	Aug 2008	Western Pacific Financial Group advisers	25	36	48
39	39	Meritum Financial Group	98	2004	AIG	n/a	n/a	Management and advisers	56	18	n/a
40	n/a	Sentry Financial Services	95	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
41	40	State Super Financial Services Australia	95	1990	AIG	n/a	n/a	SAS Trustee Corporation	15	68	95
42	33	Total Financial Solutions Australia	94	1994	QBE	n/a	n/a	TFSA Holdings	79	11	n/a
43	42	Mercer Wealth Solutions	86	1990	MMC	n/a	n/a	MMC Companies	10	32	86
44	n/a	Macquarie Private Wealth	85	n/a	n/a	n/a	n/a	Macquarie Bank	5	25	n/a
45	43	Matrix Planning Solutions	84	2005	AIG	Coogee	Nov 2008	Management, principals, advisers	38	n/a	n/a
46	44	My Adviser	82	n/a	Aon	Fiji	Oct 2008	Michael Summers	n/a	28	52
47	49	Madison Financial Group	76	1982	Vero	n/a	n/a	100% member owned	34	25	n/a
48	n/a	Industry Fund Services	73	2005	Hanover	Hobart	Feb 2009	Members Equity Bank	33	30	n/a
49	50	Capstone Financial Planning	68	2002	n/a	n/a	n/a	100% privately owned	n/a	n/a	n/a
50	54	Pivotal Financial Advisers	66	n/a	QBE	n/a	n/a	TOWER Australia	54	3	3

Source: Dexx&r

TOP 100 DEALER GROUPS

ASTARRA

No. Paraplanners 751	Total no. clients 2,923,286	Total FUA 31/03/08 ($m) 358,676.02	Planner remuneration (%)					Planning software		Research providers	
			Salary + commission - %	Commission - %	Fee - %	Salary - %	Other - %	Investment	Risk	Investment	Risk
n/a	600 000	$18,200.00	n/a	n/a	n/a	n/a	n/a	Coin	Royboy	Lonsec	Plan for Life
40	700,000	$40,189.00	n/a	100%	n/a	n/a	n/a	MWT	MWT	Mercer	ProPlanner
n/a	n/a	$13,440.00	n/a	n/a	n/a	n/a	n/a	Wealth Planner	van Eyk	n/a	n/a
138	n/a	$24,332.00	n/a	n/a	n/a	n/a	0%	Coin	Coin	S&P	Plan for Life
n/a	n/a	$5,700.00	0%	95%	5%	0%	0%	Xplan	ProPlanner	Financial Facts	ProPlanner
21	n/a	$19,908.00	100%	n/a	n/a	n/a	n/a	Coin	Coin	van Eyk	n/a
25	375,000	$13,200.00	n/a	n/a	n/a	n/a	100%	VisiPlan	AdviserCentral	Lonsec	Internal
12	340,000	$32,000.00	n/a	n/a	n/a	n/a	n/a	Coin	Ominium	van Eyk	Ominium
n/a	n/a	$11,000.00	n/a	60%	40%	n/a	n/a	Adviser Central	ProPlanner	Lonsec	Three Sixty
n/a	n/a	n/a	n/a	100%	n/a	n/a	n/a	VisiPlan	Smart Comparitor	Mercer	Smart Comparitor
n/a	n/a	$9,658.00	n/a	100%	n/a	n/a	n/a	Coin	Coin	S&P	n/a
10	n/a	$14,250.00	n/a	n/a	n/a	n/a	n/a	AdviserNETgain	AdviserNETgain	S&P	PlanTech
45	107,634	$12,313.00	100%	n/a	n/a	n/a	n/a	Coin	Coin	van Eyk	Plan for Life
n/a	n/a	$12,000.00	n/a	n/a	n/a	n/a	n/a	Xplan	n/a	Lonsec, van Eyk, Mercer	ProPlanner, Cannex
n/a	n/a	n/a	n/a	100%	n/a	n/a	n/a	VisiPlan	Smart Comparitor	Mercer	Smart Comparitor
n/a	170,000	$11,600.00	n/a	87%	13%	n/a	n/a	VisiPlan	n/a	van Eyk	PlanTech
n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	Xplan	Iress	Lonsec	PlanTech
33	51,479	$7,900.00	n/a	n/a	100%	n/a	n/a	VisiPlan	n/a	In house	n/a
n/a	60,000	$2,800.00	n/a	n/a	n/a	n/a	n/a	Coin	n/a	Lonsec	Cannex
n/a	80,000	$11,600.00	29%	n/a	n/a	2%	69%	Xplan	Xplan	Financial Facts	IQM Risk Researcher
13	160,000	n/a	n/a	n/a	n/a	n/a	n/a	Coin	Planit	van Eyk	Plan for Life
n/a	n/a	n/a	100%	n/a	n/a	n/a	n/a	Xplan	ProPlanner	Lonsec	Internal
29	180,000	$6,000.00	15%	18%	57%	10%	n/a	Xplan	Xplan	Lonsec	ProPlanner
n/a	n/a	$4,700.00	n/a		100%	n/a	n/a	Adviser Central	ProPlanner	Lonsec	Three Sixty
n/a	n/a	$3,000.00	n/a	60%	40%	n/a	n/a	Adviser Central	ProPlanner	Lonsec	Three Sixty
n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
15	n/a	$2,000.00	98%	n/a	2%	n/a	n/a	Xplan	ProPlanner	van Eyk	n/a
1	n/a	$2,000.00	n/a	90%	10%	n/a	n/a	Coin	Coin	van Eyk	van Eyk
n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	Xplan	Xplan	Morningstar	n/a
n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
outsourced	220,000	$2,360.00	n/a	80%	20%	n/a	n/a	Xplan	ProPlanner	Mercer	n/a
n/a	20,000	$1,200.00	n/a	100%	n/a	n/a	n/a	Coin	ProPlanner	van Eyk	ProPlanner
20	25,738	$2,870.00	n/a	n/a	n/a	n/a	n/a	Platformplus	Platformplus	Mercer	Omnium
1	18,000	$2,097.00	100%	n/a	n/a	n/a	n/a	Xplan	ProPlanner	van Eyk	ProPlanner
59	26,000	$9,595.00	100%	n/a	n/a	n/a	n/a	In house	n/a	van Eyk	n/a
n/a	n/a	$2,230.00	20%	70%	10%	n/a	n/a	Xplan	Risk Researcher	S&P	PlanTech
8	53,000	$3,100.00	n/a	n/a	n/a	100%	n/a	AdvsierNETGain	ProPlanner	S&P	ProPlanner
20	50,000	$4,044.00	30%	70%	n/a	n/a	n/a	Xplan	Cannex	Officium Capital	Cannex
6	n/a	$3,200.00	0%	80%	18%	2%	n/a	Xplan	Xplan	Lonsec	Xplan
n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
0	40,117	$7,354.00	0%	0%	0%	100%	0%	Proprietory software	n/a	Russell	n/a
n/a	80,000	n/a	n/a	100%	n/a	n/a	n/a	Xplan	Xplan	Morningstar	ProPlanner
26	19,558	$3,873.00	n/a	n/a	n/a	100%	n/a	VisiPlan	PlanTech	Mercer	n/a
15	14,475	$3,738.67	80%	n/a	10%	10%	n/a	Coin	ProPlanner	Macquarie Research	n/a
8	n/a	$2,600.00	n/a	n/a	n/a	n/a	n/a	Xplan	Xplan	van Eyk	n/a
n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	Xplan	Xplan	van Eyk	Xplan
14	n/a	$2,800.00	20%	10%	40%	30%	n/a	Coin	Coin	Lonsec	n/a
20	10,000	$2,500.00	n/a	n/a	n/a	100%	n/a	Xplan	Zurich	Morningstar	Zurich
n/a	n/a	$2,300.00	n/a	n/a	n/a	n/a	n/a	Xplan	ProPlanner	Lonsec	n/a
4	n/a	$555.00	n/a	90%	10%	n/a	n/a	In house	In house	Lonsec	ProPlanner

n/a – not available

ASTARRA

TOP 100 DEALER GROUPS

Rank 2008	Rank 2007	Dealer Name	No of Financial Advisers 16,072	Year Established	PI Insurer	Next Dealer Conference Location	Next Dealer Conference Date	Shareholder's name	No of offices/ practices 6,046	No.CFPs 2,411	No. FPA members 2,388
51	46	Futuro Financial Services	65	2002	AIG	Melbourne	Nov 2008	Highfield Group	43	28	37
52	52	Chifley Financial Services	60	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
53	47	FuturePlus Financial Services	60	1999	AIG	n/a	n/a	LGSS (NSW)	n/a	17	40
54	51	Bendigo Financial Planning	57	2000	AIG	n/a	n/a	Bendigo and Adelaide Bank	n/a	12	57
55	61	ipac securities	55	1983	Lloyds	n/a	Feb 2010	AXA Asia Pacific Holdings	6	32	42
56	60	Aon Wealth Management	53	2002	Vero	n/a	n/a	Aon	16	20	25
57	57	Community and Corporate Financial Services	53	n/a	n/a	n/a	Mar 2009	n/a	n/a	n/a	n/a
58	n/a	Telstra Super Financial Planning	52	n/a	Dexta	n/a	n/a	Telstra Super	5	34	37
59	58	Premium Wealth Management	51	2000	QBE	n/a	n/a	Various member firms	20	13	24
60	48	Financial Planning Services Australia	46	2005	American Home Insurance Company	Kingscliff	Oct 2008	n/a	30	13	12
61	62	The Salisbury Group	45	1999	Liberty	n/a	Apr 2009	AFS	25	n/a	n/a
62	56	WB Financial Management	44	1996	Loyds	Gold Coast	Aug 2008	Privately held	18	9	44
63	75	Centric Wealth Advisers	43	2005	AIG	n/a	n/a	Staff	4	44	46
64	77	Australian Unity Financial Planning	41	2005	Callenden	n/a	n/a	Australian Unity	37	12	36
65	n/a	Patron Financial Services	41	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
66	70	St Andrew's Wealth Management	41	1998	Marsh	n/a	Feb 2009	HBOS Australia	43	2	35
67	69	Quadrant Securities	40	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
68	66	Fiducian Financial Services	38	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
69	74	Avenue Capital Management	37	2005	Allianz	Palm Cove	Feb 2009	Private non-institutional	17	24	37
70	90	Dixon Advisory and Superannuation Services	37	n/a	n/a	n/a	Sep 2008	n/a	n/a	n/a	n/a
71	71	IRIS Financial Group	37	2005	CGU	n/a	n/a	Principals	13	19	35
72	73	FYG Planners	35	2000	APUA	n/a	n/a	Advisers	23	21	58
73	n/a	Gold Financial	35	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
74	81	IFA Securities	35	n/a	n/a	n/a	Oct 2008	n/a	n/a	n/a	n/a
75	88	Magnitude Financial Planning	35	2005	QBE	n/a	n/a	Westpac/BT Financial Group	20	n/a	n/a
76	92	Financial Technology Securities	33	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
77	n/a	Financial Wealth	32	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
78	64	Elders Trustees	30	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
79	67	Integrity Financial Planners	30	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
80	68	Managed. Financial Strategy	30	2005	Vero	n/a	n/a	Directors	8	4	10
81	87	Remunerator Financial Services	30	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
82	93	Monitor Money Corporation	27	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
83	n/a	Morrison Carr Australia	27	2005	n/a	n/a	n/a	Directors	22	6	27
84	55	Wealth Managers	27	2003	AIG	Queensland	Mar 2009	Australian Wealth Management	23	n/a	17
85	84	Insight Investment Services	26	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
86	37	Bongiorno Financial Advisers	25	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
87	86	Tolhurst	25	2005	n/a	n/a	n/a	n/a	8	6	14
88	76	OzPlan Financial Services	23	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
89	79	Whittaker Macnaught	22	1982	QBE	n/a	Feb 2009	HBOS Australia	6	12	22
90	85	Strategic Joint Partners	21	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
91	78	ING Financial Planning	20	2005	Allianz	n/a	Oct 2008	ING Australia	4	0	22
92	89	Financial Planning and Life	19	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
93	94	Ballast Financial Management	18	1999	AON	n/a	n/a	Wayne Blazejczyk	12	2	2
94	95	Lachlan Wealth Management	18	n/a	AIG	n/a	n/a	Macquarie Bank	5	7	n/a
95	n/a	Rabo Financial Advisors	17	2001	Eureko Ireland	Gold Coast	Oct 2008	Rabobank Australia	8	9	20
96	91	Equity Financial Services Australia	16	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
97	n/a	Oakwood Financial Group	14	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
98	98	Swanton & Davidson Securities	13	1997	Dexta	n/a	n/a	Directors	1	9	13
99	n/a	Quantum Financial Services Australia	12	1994	APUA	n/a	n/a	Bill Mackay and family	6	3	4
100	100	Money Managers Partner Solutions	11	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a

Source: Dexx&r

Money Management

This article appeared in Money Management July 24, 2008

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No. Paraplanners 751	Total no. clients 2,923,286	Total FUA 31/03/08 ($m) 358,676.02	Planner remuneration (%) Salary + commission - %	Commission - %	Fee - %	Salary - %	Other - %	Planning software Investment	Risk	Research providers Investment	Risk
n/a	n/a	$1,500.00	n/a	n/a	98%	n/a	2%	Xplan	Xplan	S&P	Xplan
n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
14	5,000	$1,100.00	n/a	n/a	n/a	100%	n/a	VisiPlan	n/a	Lonsec	n/a
7	n/a	$1,346.70	n/a	n/a	n/a	100%	n/a	Xplan	n/a	Lonsec	n/a
7	10,352	$2,834.00	n/a	n/a	n/a	100%	n/a	In house	Coin	In house	n/a
8	n/a	$1,600.00	96%	n/a	2%	2%	n/a	Xplan	ProPlanner	van Eyk	n/a
n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
0	18,076	$4,654.00	n/a	n/a	n/a	100%	n/a	n/a	n/a	Morningstar	n/a
na	na	$2,500.00	n/a	n/a	n/a	n/a	n/a	VisiPlan	n/a	van Eyk	n/a
n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	Xplan	Lonsec	Assirt	n/a
n/a	n/a	$650.00	n/a	n/a	n/a	n/a	n/a	Xplan	n/a	Lonsec	n/a
9	5,500	$800.00	n/a	n/a	100%	n/a	n/a	Xplan	Xplan	Lonsec	Xplan
40	4,000	$5,400.00	n/a	n/a	100%	n/a	n/a	In house	PlanTech	In house	In house
6	n/a	$480.00	n/a	20%	80%	n/a	n/a	Xplan	Xplan	Lonsec	Xplan
n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
7	8,200	$464.00	100%	n/a	n/a	n/a	n/a	N-Link	N-Link	Aviva	Cannex
n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
7	n/a	$1,600.00	n/a	30%	70%	n/a	n/a	Xplan	Xplan	Lonsec	Life Research
n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
10	11,657	$1,999.70	90%	n/a	10%	n/a	n/a	AdviserNETgain	n/a	S&P	Life Research
18	6,200	$1,260.00	n/a	n/a	100%	n/a	n/a	Xplan	Xplan	van Eyk	Xplan
n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
n/a	n/a	$2,023.00	n/a	95%	5%	n/a	n/a	Coin	Boss	van Eyk	Plan for Life
n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
7	2,000	$800.00	n/a	n/a	n/a	100%	n/a	Coin	Coin	Mercer	n/a
n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
8	6,000	n/a	50%	50%	n/a	n/a	n/a	n/a	n/a	n/a	n/a
n/a	31,100	$886.00	n/a	95%	5%	n/a	n/a	Xplan	Xplan	Lonsec	Lonsec
n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
3	n/a	$460.00	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
8	12,000	$1,760.00	n/a	100%	n/a	n/a	n/a	Xplan	Xplan	van Eyk	PlanTech
n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
n/a	n/a	$343.00	n/a	n/a	n/a	100%	n/a	VisiPlan	VisiPlan	Financial Facts	Financial Facts
n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
3	n/a	$160.00	n/a	85%	15%	n/a	n/a	n/a	n/a	S&P	n/a
5	n/a	$883.60	n/a	n/a	n/a	100%	n/a	Coin	n/a	Macquarie Research	n/a
4	800	$550.00	n/a	n/a	n/a	100%	n/a	VisiPlan	Dexx&r	Lonsec	Dexx&r
n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
5	1400	$500.00	n/a	n/a	n/a	100%	n/a	In house	Cannex	van Eyk	Cannex
n/a	n/a	n/a	n/a	n/a	n/a	n/a	100%	n/a	n/a	In house	In house
n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a

n/a – not available