



Mr Bernie Ripoll MP
Chair
Parliamentary Joint Committee on Corporations and Financial Services
PO Box 6100
Parliament House
CANBERRA ACT 2600

Dear Mr Ripoll

Inquiry into corporate collapses, financial services and products in Australia

Finsia (the Financial Services Institute of Australasia) is a professional association representing more than 17,000 individuals working across the spectrum of the financial services industry in Australia and New Zealand. Finsia welcomes the opportunity to provide a submission to the inquiry on issues associated with recent financial product and service provider collapses.

By representing individuals working across the spectrum of the industry, Finsia is in a unique position. As such, Finsia is acutely aware that with an ageing population, Australia risks a future undersupply of qualified professionals working across the industry including financial advising. In this context, Finsia is keen to ensure that in the community as a whole and particularly among graduates, financial advising is recognised as a valuable and integral subsector of our industry.

The depth and breadth of the current credit crisis is a reminder of the importance of building and maintaining high standards within our industry going forward. To achieve this, sufficient numbers of graduates must be attracted to financial advising, while simultaneously ensuring that greater emphasis is placed on ethics and transparency.

Finsia is keen to ensure that public debate regarding the financial advising subsector is balanced and objective, in recognition of the many financial advisers who do work with their clients' best interests and needs in mind. This is not to downplay the genuine losses many investors have suffered. However, Finsia believes that it is important to ensure that the industry subsector as a whole is not unfairly targeted or criticized to avoid deterring rising qualified professionals, who are the very candidates we wish to attract to the industry.

This submission addresses the following terms of reference:

Terms of reference # 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

By way of background, Finsia recently commissioned UMR Research Ltd to conduct both qualitative and quantitative research on a number of consumer finance related issues - some specifically relating to financial advising. In relation to the quantitative research, 1,000 Australian adults were surveyed of whom 60 per cent supported the recently announced recommendation that financial planners be remunerated through upfront fees rather than through commissions, 18 per cent opposed this recently announced recommendation and 22 per cent were unsure.

Finsia welcomes the Financial Planning Association of Australia advocating that the financial planning industry should adopt a standard fee-based remuneration model from 2012. However, Finsia is of the view that the role played by commission arrangements relating to product sales and advice needs to also be considered in conjunction with related issues such as soft dollar benefits provided by product



providers and licensees as well as payments made to licensees for funds under management, sponsorship or other benefits. Finsia believes that such related issues need to be considered from both an ethical and a transparency context. Finsia also believes that the affordability of financial advice for all is an important issue which should be taken into account in a review of remuneration models and arrangements for financial advisers.

Terms of reference # 5 - the adequacy of licensing arrangements for those who sold the products and services

Finsia notes that in November 2007, the Australian Securities and Investments Commission released an updated version of Regulatory Guide 146, which sets out the minimum training and competency requirements for financial services licensees, their authorised representatives and employees who provide financial product advice to retail clients. Finsia also notes that this revision of RG 146 followed a review ASIC carried out to deal with issues raised by industry stakeholders reflected in the Corporations and Financial Services Regulation Review – Proposals Paper released by the then Parliamentary Secretary, the Hon Chris Pearce MP in November 2006.

Finsia believes that consideration should be given to increasing the training standards and that a broad review of the policy in RG 146 should now take place.

Terms of reference # 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

In relation to the UMR quantitative research of 1,000 Australian adults mentioned above, 44 per cent said that they had obtained advice from a financial planner. Of this 44 per cent, 29 per cent said that they found the documentation provided to them by the financial planner to be either too complex or too simplistic. Of this 29 per cent, 83 per cent said they felt that the documentation was too complex and 17 per cent said that they felt the documentation was too simplistic. Main criticisms raised from those who felt that the documentation was too complex related to the language used in it as well as its length. Main criticisms raised from those who felt that the documentation was too simplistic related to the use of generic information, which was far too general.

In light of the above research findings, Finsia is of the view that all documentation provided by financial advisers to clients should be succinct and in plain English.

Finsia is also of the view that there is merit in exploring whether different levels of regulation should be imposed upon financial advisers depending upon the amount being invested and the level of risk. In circumstances where a relatively small amount of money is being invested in an investment with a relatively low risk, there may be merit in removing the requirement for a financial adviser to inquire into all of the client's financial circumstances and provide a detailed written report. This should have a financially advantageous flow-on effect for many clients.

Terms of reference # 7 – consumer education and understanding of financial products and services

Finsia is of the view that consumer education needs to primarily focus on the following three key issues:

1. the higher a rate of return is claimed to be, the higher the risk associated with the investment;
2. the pitfalls associated with borrowing; and
3. the pitfalls associated with a failure to insure or under insurance of a range of risks.



Finsia is of the view that the Commonwealth Government should forthwith implement an education campaign so that in the next 12 months over 95 per cent of adult residents in Australia are exposed to these two key messages.

Terms of reference # 9 – the need for any legislative or regulatory change

Finsia is of the view that in formulating a regulatory response to the collapse of Storm Financial, Opes Prime and others, careful consideration should be given to the imposition of any additional regulation on the financial advising subsector as a whole. In Finsia's view, any additional level of regulation should be carefully targeted so that the financial advising subsector as a whole is not unfairly penalized for the errors and omissions of a few. Additional 'blanket' regulation would be likely to result in increasingly complex information and documentation being prepared and would subsequently increase costs for clients. In addition, Finsia believes that any additional regulation should only be imposed after extensive consultation.

Yours sincerely

Dr Martin Fahy F Fin

Chief Executive Officer