My name is Darren Furst, age 29, I am a Financial Adviser and now have equity in a licensee, employing 5 staff, in Adelaide, SA, and I commenced in the industry 8 years ago and bought in to the business in June 2008. I am passionate about the needs of my clients and the industry, and would like to take this opportunity to share my views for your inquiry;

The role of a financial adviser is as diverse as the Australian population. It is almost impossible to define, as the job performed by one adviser can be totally different to that performed by another. As one Advisor can have client with no money to invest, another may have $1,000,000. Some advisers only look after retirees and pension clients, being experts in Centrelink benefits and the like, while others may just advise on general or personal insurance needs.

As far as I see it, the industry is so broad, there will never be a silver bullet that fixes the perceived problems, with the many and varied role of Advisers it is very difficult to regulate and ensure all consumers are protected. An Advisor should be an individual / and or business that puts the needs of the client first and foremost, provides the client with education on the strategies & products, available, relevant to that clients circumstances and allows the client to make an informed decision on the path they wish to take – whether this be investing, buying insurance or retirement planning.

A Financial Advisor is a conduit between the client and the solutions to satisfy their needs. An advisor should always be working in the best interest of the client, ensuring their needs and objectives are at the forefront of all recommendations, be it product or strategy related. If Advisors do not act in this best interest they will not last long in the industry, as they are found out. It is unfortunate that some clients loose because of these dishonest people, but this happens across all industries, and in impossible to regulate against.

I believe the general regulatory environment is sound in Australia, and you cannot regulate against people that are determined to do wrong and cheat the system. The financial services industry had approx 16,000 “Advisers” servicing the population of Australia. These advisors cannot be held responsible for the collapse & greed of a few minority groups. I feel for the many clients that have been affected, but I am positive that stronger regulation would not have prevented the collapses. These firms or advisors that recommended these products probably had very compliant operations. The fundamental problem was they were “bad eggs” not putting the clients needs before their own. How they were renumerated would make no difference to these people, neither would greater regulation.

This leads into the Fees Vs Commission debate, which really is a disgrace. How you charge does not determine the quality of advice or the character of the person providing that advice. Firstly a great number of the “advisers” that sold Westpoint were not licensed, second of all many of the people that pushed TimberCorp and Great Southern were Accountants who obtained Authority’s direct from the product provider. The key is value, as long as the client is aware what & how they are paying and they believe they are getting value, it is irrelevant how they pay for the advice. The ability to stop paying if they want is a good initiative, which is not really new and now applies to most products and services.

In regards to comparing Advisers to Lawyers and Accountants, both these industry's moved to time based fee for service, and ever since have been trying their best to change their charging models as the "Fee for Service" does not work. Ask any lawyer and the response will be the same. Our industry should learn from these mistakes, not repeat them; the end consumer will be the one that really suffers. Fee for service will only benefit the members of the community that can afford the advice; the general public will not seek advice. Currently 2 out of 10 Australians have a Financial Adviser, this is not good enough. Should we move to fee for service this number will be less. We have a huge underinsurance issue in this country, which will be exacerbated should we move away from commissions on insurance products. The insurance industry pays out $10,000,000 per DAY in claims, this money goes to families when they need it the most, and back into the community, without this these people will be collecting it from CentreLink. This would have a huge impact on society, we already know we have a shortage of tax payers to retirees in the coming years, how would we fund these and the insurance claims if this country's underinsurance issue was to get worse due to changing the remuneration model.

I will disclose that I am an Adviser that runs and owns a practice that is commissioned based, we predominantly provide risk (life) insurance & superannuation, with some investment. Our clients, some as long as 20 years or more are more than happy with this, as many would have never obtained advice if they had to pay for it out of their own pocket. I believe there should be differential between insurance advisers & financial advisers – I am happy to see a change in the way clients pay for Investments and Super – as long as it is still able to be paid for from the product and fully disclosed to the client – but as far as insurance is concerned there needs to be <u>no change</u> in this space. This, I believe, has been achieved since the introduction of the Financial Services Reform Act.

The reason for this is simple, if a client decides after consultation with an Adviser they require $750,000 of life insurance to clear debt and provide for their young family in the event of death, so completes the application for insurance, only to find out that due to a pre-existing health condition cannot obtain the insurance, would this client still be prepared to write a cheque out to the adviser for $500 or $1,000 for the advisers time in determining the needs and submitting the application? The answer is a clear NO! The client is not going to pay a cent for something they never received. They have walked away with nothing more than with what they came.

Financial Planning & strategy advice is a totally different case, if a client sees a planner and they provide some recommended retirement planning strategies, the client should pay for this even if they do not implement the advice, as they have used the intellect of the Adviser. They have walked away with greater knowledge than they had before the meeting.

I believe it really comes back to the quality of the person providing the advice, and this will not be cleared up by banning commissions. If an adviser intends to do the wrong thing, they will do this whether they charge a fee or a commission, and let us be honest, a fee paid for out of the product is a commission.

I believe most people benefit from receiving advice, and by banning commissions you will only ensure that obtaining advice is out of reach for many Australians, as they simply will not be able to afford, or be willing to pay out of their own pocket for advice.

The role of advertising campaigns is debatable. We have over 1,500 clients and I could confidently say that over 98% of them would not have heard of WestPoint at all, before or after the collapse, would not listen to industry super fund advertising, would not read the Financial Review or any financial pages in the local newspaper. Here probably lies the real issue. There are far too many Australians that do not take their personal finances seriously enough, and therefore leave themselves wide open to be taken advantage of by crooks. Once again, legislation / regulation and compliance are not going to help these Australians.

The adequacy of licensing arrangements is interesting, as I believe the licensees are never really mentioned in these discussions. These are the groups that hold the licences (Australian Financial Services Licences – AFSL) and who authorise the advisers to provide advice. These licensees then provide admin support, compliance & training to these advisers to assist them operate in the industry. In return the adviser pays a fee or splits revenue with the licensee. The majority of these licensees are also product manufactures; AMP, ING, MLC, AXA, and CBA. These licensees also provide product research to the advisers, which results in an approved product list, APL. If a product appears on this APL then the adviser has permission to recommend it, as the licensee has done research on the product and believes it is sound, therefore the adviser believes that they are ok, as surely the research conducted by the licensee would be more thorough than a simple adviser? These licensees AXA, ING, AMP etc, had Timbercorp, Westpoint on their recommended list This is where I believe you should be looking, the licensee.

The fact that the majority of the major licensees are also product manufactures surely is a big conflict If product manufacturers could not be licensees, many of the issues would be relieved. We as an industry went away from tied agents (in theory) but in practice most advisers are licensed through the group where a majority of their business is placed, big conflict. If all Advisers had to be licensed direct with ASIC, and then product manufacturers were just that, then all parties could be represented without hidden agendas or conflicts. When AMP, AXA or MLC make a submission to Parliament, are they doing it as a member of IFSSA or the FPA, as a Licensee representing their Advisers, representing their shareholders, or as a product manufacturer representing their own interests or the interests of their policy holders, surely they cannot do all of this equally and fairly?

The majority of advice provided to clients is good and in most cases it is very basic, only 2% of the population need complex financial planning advice, the rest just want to pay off their mortgage, educate their children and retire comfortably, and along this journey have adequate insurance to allow these things to happen, if something unforseen was to occur. There is a minority that need high end planning, and a minority of advisers to service them. The majority of advisers see every day Australians, servicing their needs from an insurance, savings and Superannuation perspective. These Australians want a relationship with an adviser who will assist them through their stages of life, and be a resource as circumstances change. Our business is a long term business, which seems to have been lost in this current climate. We really just provide clients peace of mind. It is really that simple. The Financial Service Reform Act (FSRA) was introduced to protect consumers and simplify the advice process; Clear, Concise and Effective was the by-line. Nothing could be further from the truth, the compliance burden on Advisers has never been greater, the cost to deliver the advice has never been greater, and the poor consumer is no better off, probably worse, and worst of all due to the compliance burden advisers are reluctant to see / find new clients. So there is a generation of Australians that have never been approached to discuss their Savings, Insurance or Superannuation. We would be in contact with up to 100 – 200 people per year that have never reviewed their insurances and never thought about their super. These people are average working Australians between the ages of 20 – 45, with income from $30,000 to $300,000. It is dangerous to assume that working Australians take their financial circumstances seriously.

The appropriateness of advice, as a whole, is good across the industry, it is just these odd cases that flair up that tarnish the industry. The interests of the client / consumer can best be served by allowing the industry to evolve as it has been, it is only a young industry relative to the professions of Accounting, Law etc, but it also very different to these professions, when a client leaves an advisors office they have purchased something in most cases, in all the other examples above the client has an opinion, and that is it, there is never a product involved. This is a major difference. This is where it may be worth considering separating advisers who provide strategy & those that sell product, but really it come down to the adviser's character & integrity, they will either place the client's needs first or they will not; compliance, regulation, legislation and remuneration models will do little to change the outcome.

Consumer education is a pipe dream, quite frankly, the public on as a whole could not care less, and it is unrealistic to believe that the consumer would have any idea of how these products function when the majority of advisers in the industry could not explain how they work. Many of the structured products, were so complicated, with many layers, not many people could understand them. I think we should reduce the number and type of products the average adviser has access to, and then only allow "specialist, qualified, ASIC approved" advisers to recommend, advise, and deal in the more complex products. This would take the onus off the licensee and make the adviser directly responsible to the regulator. What you will find is the majority of Advisers will not bother becoming specialists as their clients do not have the need for this specialist advice, the majority are more like General Practitioners, servicing the need of the average Australian. I totally encourage clients / the public to take control of their financial affairs, but for most it is the last thing on their mind. We cannot give up on education, but it is not the answer, the answer is restoring faith and confidence in the financial advising industry, and reinforcing the need for all Australians to visit an adviser, and no matter what their financial circumstance they will have access to advice, and have a choice as to how they pay.

I am not sure if there is an absolute need for legislative or regulatory change, over my time in the industry I have seen much change, my mentor who has been in the industry 20+ years has seen a myriad of changes, and between us we are not sure if the client is any better off. Businesses will fail, corporate collapses will continue to happen, in good times and in bad, and whether there is a Global Financial Crisis or not. As stated previously this industry is rather young, and still evolving, it has evolved from the life insurance industry with many different sectors; Insurance, Funds Management, Direct Share Investing, Tax Planning, Superannuation, SMSF, Pensions, Margin Lending, Structured Products. Managed Investment Schemes, all with their own Associations representing their view of the world. I think it is impossible to regulate & legislate this big industry, and treat all advisers the same, as the role they play is so varied. Therefore it could be split into;

Financial Advisers – Insurance, Basic Superannuation, and Basic Investing – commission or fee for service, through products or direct payment - client can choose.

Financial Planners – Specialist group authorised directly by ASIC - Complex advice, structured products – Fee for service only – direct payment from the client.

For the record I have read the FPA’s proposition and IFSA’s Charter and quite simply nothing will change. As mentioned before I run a commissioned based business and should these proposals get through nothing will change in my business and I expect nothing will change in many of the Advisory firms across Australia. This has been all hot air, and until the real issue of licensees and product providers is raised and investigated nothing will ever change. This entire “Spin” about banning commissions will do nothing about preventing another Westpoint, Timbercorp or any other scam or scheme invented up by crooks. If a client has a relationship with an Adviser, and trusts the adviser, if the adviser wishes to then breach this trust, then they lose out, which will happen from time to time. Regulation, Legislation and banning commissions will not do and cannot do anything to prevent this occurrence.

Thank you for the opportunity to provide this submission, I hope it helps, and I would welcome the opportunity to answer any questions or provide additional information on this industry which I believe serves the community well.

Yours faithfully,

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