As a 30 year financial adviser, Certified Financial Planner, past President of the Association of Financial Advisers and regular columnist for the financial media, I hope I have something worthwhile to contribute to the Inquiry.

There are several issues I would love to address, but in the interests of efficiency, I will limit my comments to the issue of adviser remuneration.

No one would question the potential for commission to influence a recommendation.

That said, it is not the payment of commission for financial products that is inherently bad, any more than it is for real estate, loans, cars or white goods.

Even the quantum of commission is not something that should be of concern to the Inquiry. A lot of attention has been focussed on high upfront commission as being, effectively, unfair.

The reality is that if a comparison is made between a 10% upfront commission on an agribusiness investment and a managed fund investment with an annual “commission” of 1%, over a typical 15 year service period for these investments, in nett present value terms, the upfront model is, in fact, the cheaper alternative for the client.

The cost of a service is a commercial arrangement between the provider of the service and the recipient and should not, in a free enterprise environment, become the province of government regulation.

There are several immutable truths with respect to commission on financial services products.

The first of these is that, because, in the main, financial advisory fees are not tax deductible, payment for adviser services in the form of commission deducted from a financial services product is a more economical and tax effective means of paying for the service for the majority of Australians than the alternative of payment of fees on invoice.

Secondly, many otherwise valuable financial products, most notably risk insurance, would not be “sold” if it wasn’t for the financial inducement the commission represents. It is difficult enough to get clients to take up appropriate levels of insurance without asking them to pay non tax-deductible financial planning fees on top of the premiums.

Thirdly, it is infinitely easier for financial planning firms, and hence cheaper for the client, to collect remuneration from a financial product provider than via direct invoicing to the client. In fact, a substantial proportion of the Australian population could not engage the services of a financial planner if they were required to meet the associated financial planning costs from their own resources.

By way of example, a client for whom the recommendations include a comprehensive insurance portfolio and an investment of $20,000 into a Managed Investment Scheme business would invariably prefer to have their $4,500 financial planning fee, (this being a typical fee for strategic analysis of a client’s complete financial situation, preparation of a comprehensive Statement of Advice including superannuation, estate planning and debt structuring advice as well as the afore-mentioned insurance and investment recommendations, implementation of said recommendations and twelve months of ongoing service and review) covered from commission generated from the implementation of the recommendations as opposed to receiving a commission rebate, which may

constitute taxable income, than receiving an invoice for an equivalent amount in financial planning fees which would, in all likelihood, not be tax deductible.

As you can see from this example, the issue is not the payment of commission. What IS significant is:

- Are the benefits being received by the adviser, in all forms, fully disclosed in easy-to-understand terms?
- Where the remuneration is deducted from client funds, does the client authorise the payment of said remuneration in writing prior to its provision to the adviser?
- Does the client feel that the services being delivered represent value for money for what it is costing them?

My recommendations to the Inquiry would be to implement measures to prevent ANY remuneration being paid to an AFSL, where said remuneration is deducted from client funds, without the PRIOR WRITTEN CONSENT of the client.
This would address the issue of clients paying commission from products, notably superannuation, without neither having authorised the payment, nor receiving any form of service for said payment.

This one simple measure would go a long way towards eliminating many of the more unsavoury aspects of the current financial services landscape.

I trust this submission will assist the inquiry in devising appropriate recommendations to the Senate.

Your faithfully,

Wayne Leggett CFP JP, Co-Principal

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