

Submission PJC Hearing

Current and likely impact on my Financial Services Business

SOME BACKGROUND

- 16-Years business build, from one person start up to now 12 staff (5 Advice, 7 Support (5 F.T.E's)
- Turnover approaching \$2 million, business debt < \$ 1million
 - Revenue largely commission based but converting to fees
 - 65% Risk, 35% Funds Management
- Annual Business Planning a Priority. Outcomes based, work hard on New Business Offer and Engagement. Aim for 40% N.O.P.
- Contribute
 - approximately \$600k to tax system
 - Pay approx. \$750k wages salary
- Endeavour to Employ many "start up" young Advice/Support people, and women working 3 – 4 days/week
- Offer
 - Training, skills development, career opportunities
 - Active participation & ownership in practice
- Client Relationships. Over 3500 A.B.C class "middle Australia" clients who get the best possible service and support we can provide. Our Motto & Ethos "We try harder for your best outcome!" However, despite this, it is always difficult to maintain the desired engagement.
- Business has been built on acquisition of client registers, (spend \$2.25m) then integrating and servicing their needs within the business model
- We believe we provide a second to none quality experience and outcome to our clients

MY CONCERNS

1. Practice value has fallen by 15% since April 2011 following Tranche1 release. FACTUAL, following conduct of business valuation. *[Add to this the commercial realities of falling Capital Values / increase in lapse rates / Risk and a very much tougher business environment].*
2. Uncertainty with business planning as we move to a fees based model and how to manage "commercial realities" alongside "FOFA uncertainties".
 - ⇒ Opt In and its challenges
 - ⇒ Potential impact of "Best Interest" small print
 - ⇒ Uncertainties around Grandfathering of legacy relationships
 - ⇒ Essential Business Model changes but no resolution from FOFA on boundaries!
3. Impact of "Grandfathering" and how this will apply to "Opt in", fee disclosure statements and volume bonuses. What does 'Crystallization' and its implication really mean?
4. Managing debt levels as our Specialist Financial Services Bank (NAB) considers the likely impact on its traditional valuation and loan covenant methodology.
5. Holding and attracting quality staff (especially ADVICE) with the "conflicted remuneration" intent, providing incentives for "production", and the career prospects of a decline in employment of over 50% by the year 2025.
6. Off Shore Staffing considerations to save on high cost local service demands and improving on a consistent client outcome. Cost effective management of the "Opt in" process and all that it involves.

MY CONCERNS (continued)

7. Sale / purchase of client registers post 1/7/2012 and likely invoking of immediate "Opt in" demands. Resultant impact on value of such purchases, and holding value to our practice.
8. Opt in
 - I. Practical and commercial management of clients who fail to Opt in, especially involuntary. Retraining of clients for realistic service and support expectations. *[Current "subsidised" Service Offer must be withdrawn for those who can least afford the service. Who looks after them? Will they understand? Who do they blame? Who cares?]*.
 - II. The legal implications for an "unwitting" or involuntary Opt out – i.e. overseas, change of address etc. Unmanageable risk to the business!
 - III. Dealership / Manufacturer / Adviser Management of "fee / commission" for client as a result of a not opting in!
9. Essential future focussed client selection process. Those who "can afford the cost of belonging" to the new commercial world this legislation will create.
10. Stifling of rewards for "better business / better Advice outcomes" to onshore conferences only. We now as Advisers, largely pay for the experience and can opt in or out.
Bloody minded, altruistic, paternalistic and lacks any logic!
11. Likely impact on dealerships and manufacturers – They will be squeezed on Industry Consolidations at all levels, Not good for consumerland!
12. Not my problem but our current +/- \$600k tax contribution will fall significantly. GST from reduced revenue streams, reduced income tax (employment) reduced superannuation contributions tax, reduced Company tax / personal tax / "distributions" capacity. (This is a personal concern!)
13. The stated intention of wrapping Life Risk Insurance into the "conflicted remuneration" package after "consultation" with the Industry. If current "consultation" indications are the future norm, I can only foresee a further contraction for our business and its capacity to provide a commercial service. Do we take an attitude of "it's all too hard" and run a minimalist business model, and maximize today's return against future uncertainties?
14. Proposed penalties for individuals and corporations, the behest of the Regulator for various breaches, are totally excessive. If you are in this business for long enough, you will get picked on and at a business level, these financial risks are just too much to contemplate.
15. Impact of ongoing negativity promoted by consumer groups and the Government / Minister! Outcome "You shouldn't trust your "trusted" Adviser" – he is ripping you off". I hear this often. So untrue and a mindset not of our making! Under Insurance in Australia can only continue with this public perception!
16. Implementation dates
Given the rapidly closing legislative implementation dates and the gross uncertainties within the proposed legislation, it is essential to extend the implementation dates UNTIL all the details are known and the likely impacts understood, and can be complied with. At a business level, and as expressed, it is a major planning consideration and we will not be able to meet the current deadlines.

We currently have a regulatory regime second to none and one that makes it harder rather than easier to work with our clients, and at the same time, remain commercial. Please convince me how more of the same will save the "identity crisis" when Government already has a total disconnect with this process. Personally, I feel very let down by the FOFA review process, and could not have done more to try and influence an outcome that now truly appears to have been pre-set for the advantage of some, and by implication, against the best interests of so many key stakeholders, clients included.

Yours faithfully,

Kenn Williams
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