

26th January 2012

Suite 2 & 11
6 Leigh Street
Burswood WA 6100
PO Box 15
Burswood WA 6100
Phone: 08 9472 5611
Fax: 08 9472 5622

Senate Standing Committee on Economics
Corporations Amendment (Future of Financial Advice Bill 2011)
PO Box 6100
Parliament House
Canberra ACT 2600

Email:

Dear Secretary

Inquiry on Future of Financial Advice Bill 2011

As a long-term industry participant, and very committed to the best outcome for all stakeholders in our great Financial Services Industry, I am very concerned about the likelihood of major structural changes to this industry, and a future capacity to provide value based quality services as a result of the proposed changes under FOFA.

I personally have been very involved in the proposals, having attended both Treasury positioning meetings, had the Treasury officials visit my office and meet with my staff to help them better appreciate our role, sent in submissions on a number of occasions and communicated directly with the Minister. Further, I have met with a number of Federal politicians, and held open meetings with politicians for our industry participants to try to better understand the implications, and indeed very direction, that this legislation might take.

I continue to be dumbfounded by much of what is so unnecessarily proposed in the FOFA legislation and the non-commercial, paternalistic, and heavy-handed regulatory environment to be created.

The attached submission is intended to highlight my very real concerns for my business as a result of the FOFA Legislation.

Yours sincerely,

Kenn Williams
Director
LifeNet(WA) Financial Advice Pty Ltd

Submission Senate Committee 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 the 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. The Big get bigger; 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 are likely to get picked on and at a business level, these financial risks are just too much to contemplate.
15. Impact of ongoing negativity promoted by many 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
Director - LifeNet(WA) Financial Advice Pty Ltd