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21 March 2003

The Secretary
Parliamentary Joint Committee on
Corporations and Financial Services
Room SG64
Department of the Senate
Parliament House
CANBERRA ACT 2600

Attention Senator Grant Chapman

Dear Senator Chapman

REF: COMMISSION DISCLOSURE CONSEQUENCES

I refer to the JPC inquiry into commission disclosure on risk insurance and to the public hearing at which I was present. Questions were raised in connection with the unintended consequences that disclosure would have on the distribution system, and to middle and lower income Australians, particularly those who do not live in major population areas. Some members of The Committee request further evidence in support of these.

The Dominance of Banks

The sale of life insurance products is made through distribution networks owned by institutions, namely banks or insurance companies, or by private groups.

"Money Management" listed the top 50 distributors in it's edition of 13 March 2003 (copy attached). Of the top 12, only one was not totally owned or partly owned by an institution, a life company or a bank. Between them, they own 41 distribution groups.

The top distributor (AMP) operates under three different dealer groups (AMP Financial Planning, Hillross and Arrive). The next (NAB) – through six dealer groups, and the fourth (AXA) – also through six. The rest of the major owners are AXA, Commonwealth Bank, Westpac, ING, St George Bank, Zurich, ANZ and Suncorp Metway who between them own another 26 dealer groups. They have acquired these over time because of their apparent unlimited resources.

This dominance by the institutions (because they also own the manufacturers of risk products) has potential to severely damage non-institutional competitors because they, as manufacturers, set the commission levels.
It would be a simple matter to reduce up-front commission so that non-institution small business advisers simply can not survive while they subsidise their own distribution groups for whatever time that it takes to achieve their objective. The Boral case highlights this danger.

Rural Australia

Banks have already substantially withdrawn services to rural Australia on the basis that they say it is not profitable. This is somewhat understandable given that they are shareholder owned profit driven companies. Railways, bus companies, airlines and Australia Post – to name but a few – have done the same thing. Telstra would also do so, and, but for that reason alone, would have been fully privatised long ago.

Many advisers have country town / rural client bases. I did a straw poll by phoning a number of advisers who have practices which include country towns and the bush. Of the fifteen I contacted, all have a substantial number of clients who live more than 50 kilometres from the advisers' office. The percentage ranged from 15% (Paula Dallas Ford in Perth) to 55% (John Houston in Toowoomba).

All said that if new business commissions were reduced as a consequence of the negative perception of commission caused by disclosure, they would simply cease to provide a service to consumers where it was uneconomical to do so. All agreed that at present, there is a cross subsidisation which benefits middle and lower socio-economic groups.

Middle / Low Income Australians

The "Australian Yearbook 2003" in chapter 7, page 193 shows average disposable household income as being just under $25,000 in year 200-2001. It is difficult to see how the average household will be agreeable or even able to pay a fee for service in connection with life insurance. The notion that they will pay a fee, as suggested by one presenter (a Financial Planner in Perth who acknowledges that he turns such people away) is so absurd that it beggars belief.

Of course – the argument can be mounted that opposition to disclosure is emotional, and to some extent it is. This notwithstanding - unless it can be clearly demonstrated that no harm will befall middle / lower income and rural Australia by commission disclosure – the current system should not be changed.

U.K De-Regulated Products

Reference was made a number of times at the hearing to the UK system, but no one presented any evidence that it was, "5 years behind Australia". In fact, it is ahead of Australia and has been for a number of years. The UK system has what is called, 'regulated products' – where commission has to be disclosed, and 'de-regulated products' – where the commission has no effect on end benefits and need not be disclosed. Risk insurance is a de-regulated product.

I again urge that the Committee recommends to Government that risk products be treated as de-regulated as they are in the UK, and hence not requiring commission disclosure.

Yours sincerely

ROBERT ROSS CFP, FAFA
Authorised Representative
for Matrix Planning Solutions Pty Ltd

The top dogs still have plenty of bark

The issue of ownership is back on the agenda after recent industry surveys but, as JASON SPITS reports, the more things change, the more they stay the same.

Money Management
TOP 50
Distributors

By now the financial planning industry has digested the recent Australian Consumers' Association (ACA) survey on the quality of advice. Regardless of its findings and many planners' opinions of the survey, it did raise at least one important issue in the mind of the public – who owns financial planning?

For many years this has been a question the industry has been covering, with *Money Management* conducting its own research into the question as far back as 1999 with the launch of the inaugural Top 100 Dealer Groups report. At that time it became clear that institutions had made big moves into financial planning and already started to buy up practices and whole planning groups, as well as building planning divisions from scratch.

This was further confirmed with the inaugural Top 50 Distributors report in 2001, which for the first time comprehensively listed the actual owners of the planning groups who made up the Top 100.

Back then, the top five owners of distribution held 6,676 planners between them with only three groups – AMP, the Commonwealth Bank and National Australia Bank – holding more than 1,000 planners. Count and AXA rounded out the top five with 949 and 896 planners respectively.

In 2002 the top five owners of distribution held 6,852 planners between them, while the remainder of the Top 50 held 6,211.

Looking at this year's table the top five owners of distribution all hold more than 1,000 planners with a combined total of 7,765 planners between them. Compare this with the remaining 45 entries in the table, which collectively hold only 6,010 advisers.

Where the table becomes even more interesting is the way the numbers drop substantially outside the top five positions and fall below 500 planners by number 10, below 200 by 14, with a slightly longer drop to below 100 by position 24.

In fact, the sudden drop from around 500 planners to just over 200 indicates the polarisation of the market identified in last year's Top 50 report has continued, with the large scale groups usually held by large scale players and those groups with less numbers, particularly below the 100 mark, held by directors, advisers or a combination of both.

It would be easy to conclude from these figures that there has been a move from the groups lower down on the table and to a point this is the case, but the large institutions have also been recruiting heavily and much of the increase can be attributed to organic growth.

This growth in large groups would in turn emphasise the difference in adviser numbers across the table, confirming that banks and funds management groups, now often the same creature, are building large scale planning groups from a range of sources.

But they are not having it all their own way with the third and fifth ranked groups, Professional Investment Services (PIS) and Count Financial, held by private and listed interests respectively, still holding their place in the market and building on established positions.

Count has moved from 949 advisers in the 2001 report to 1,085 this year, while PIS has rocketed from 466 to 1,284 in the same period indicating there is a place for large scale, independently held financial planning groups in Australia.

But the presence of Count and PIS raises some interesting questions about the state of dealer group ownership. The ACA, in criticising the quality of advice in its recent survey, decried the fact that the banks held more than 50 per cent of financial planners.

However, the numbers in both the Top 100 Dealer's report and this year's Top 50 contradicts this, with the banks holding around 35 per cent of the advisory industry, with most of those held by the big five alone – National Australia, Commonwealth, Westpac, ANZ and St George.

Fund managers hold just under 34 per cent, with listed and privately held groups accounting for 30.5 per cent. Broking houses account for the rest.

There has been an increase in bank ownership from about 22 per cent four years ago, but it appears the banks taking over half of financial planners is still some way off.

The table also brings together a number of planning groups that are owned – partially or fully – by some form of institution, but some still make their way in the world under their own banner.

These include groups such as Godfrey Pembroke, Ipac, Tynan Mackenzie, Bridgeport and Cameron Walshe.

What is more important is that these groups are also afforded a measure of autonomy and, in cases such as Ipac, are even regarded by their parent group, AXA, as a source of new ideas as well as revenue. This was highlighted in news last week that AXA would consider the Ipac planning model for use in its Charter Financial Planning dealer group.

In fact, these groups would argue that having a large institution involved in their ownership has not changed their 'independent' status, which in turn opens up the debate about what really is an 'independent' dealer group.

Aside from the stated legal position as defined by the Australian Securities and Investments Commission (ASIC), the question the planning industry will have to face up to is whether independence is a state of mind or a state of being.

It is also here that the banks and fund manager owners of dealer groups can find a middle ground for the advisers who operate under their flag of ownership.

Understandably these owners desire a return on their investment in the dealer group, but it is no great secret that planners do not like to see this return generated via forced sales of the parent group's products or services.

The results of this are understood – planners tend to grumble, then they leave and often take a substantial book of business with them. This is a trend that the Top 100 report has borne out since its inception in 1999.

The institutional hold on the industry is unlikely to be broken through this in the short-term, but the growing gap between large-scale, institutionally-owned groups and true independents and boutiques is widening.

Whether this will become a chasm in next year's Top 50 remains to be seen due to the level of change still going on in the industry as a result of the Financial Services Reform Act (FSRA).

But consider this, experienced planners seeking a new home are likely to be attracted towards boutiques and those groups servicing the upper reaches of the market.

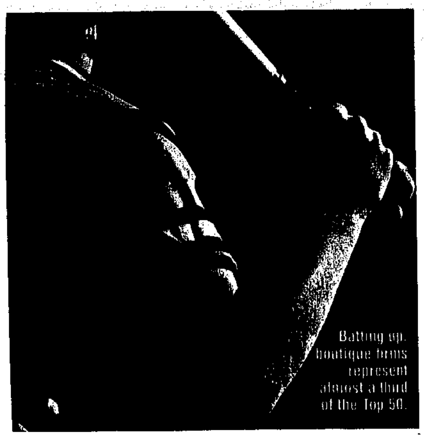
And after the pasting many dealer groups from the big end of town received in the ACA report (see page 18), the day of the independent boutique may be just around the corner.

Top 50 Distributors

TOP 50 DISTRIBUTORS

Position	Distribution Group	Dealer Group	No of planners 2002	Shareholders ( )	FUA $m
1	AMP	AMP Financial Planning, Hillross Financial Services Limited, Arrive Wealth Management	1,714	AMP - 100	6,100
2	NAB	Garvan Financial Planning, National Australia Financial Planning, Apogee Financial Planning, MLC Financial Planning, Godfrey Pembroke Financial Consultants, National Personal Client Services, MLC Private Client Services, AdvantEdge Financial Management	1,547	NAB - 100	11,400[A]
3	Professional Investment Services	Professional Investment Services	1,284	Private - 91, Norwich 9	5,300
4	AXA	AXA Financial Planning, Charter Financial Planning, Altus Financial Services, Ipac securities limited, Tynan Mackenzie, Monitor Money	1,154	AXA - 100 except Tynan Mackenzie 33, Directors & Staff - 66	2,653[B]
5	Count Financial Ltd	Count Wealth Accountants, Compound Investments	1,085	Listed - 76, Lambert family 24	5,400
6	Commonwealth Bank Australia	Commonwealth Financial Planning, Financial Wisdom, Commonwealth Financial Solutions	981	CBA 100	nd
7	Westpac	Westpac Financial Planning & Advice, Hartleys	891	Westpac - 100 except Hartleys - 28	13,855
8	ING	RetireInvest, Tandem Financial Advice, Millenium 3	619	ING - 100	11,592
9	St George Bank	Securitor, Pact, St George Bank FP	582	St George - 100	1,613[C]
10	Zurich	Financial Lifestyle Solutions, Bridgeport Group, Associated Planners Financial Services, Lonsdale Financial Group, Aust. Financial Services	492	Zurich - 100, 30, 30, 70, 43 respectively	11,340
11	ANZ	ANZ Banking Group Limited, Protax, AustAccount Securities	468	ANZ - 100, 45, 20 respectively	10,005
12	Suncorp-Metway	Suncorp Small Business Distribution Group, Suncorp Financial Advisers	227	Suncorp Metway - 100	3,800[D]
13	Mawson Securities	Mawson Securities	200	Directors - 100	nd
14	Challenger	Barbacan Benefits, Garrisons	157	Challenger - 100 (Garrisons), 25 (Barbacan) 75 (principals)	3,533
15	Lifespan Financial Planning	Lifespan Financial Planning	157	Directors - 100	900
16	JB Were	JB Were Private Client Services, Were Strategic Planning	148	JB Were - 100	nd
17	Promina	Guardian Financial Planning, Cameron Walshe	139	Promina - 100	600[E]
18	FSP Group	Financial Services Partners	131	FSP Group - 50, Advisers - 50	597
19	IOOF	Winchcombe Carson Financial Planning	116	IOOF - 100	1,800
20	Deakin Financial Services Group	Deakin Financial Services	115	Listed - 100	nd
21	Investor Group	Investor Group, Prescott Consultants	113	Listed - 100	23,900
22	SAS Trustee Corporation	State Super Financial Services	109	SAS Trustee Corp -100	3,504
23	Tower	Bridges Financial Services	104	Tower - 100	4,700
24	Aon Corporation Australia	Aon Financial Planning & Protection	97	Aon Corp - 90	nd
25	ABN AMRO/ Management	ABN AMRO Morgans	82	ABN AMRO - 50, Management - 50	12,400
26	Stockford Financial Services	Stockford Financial Services	80	Listed - 100	2,400
27	Total Financial Solutions Australia	Total Financial Solutions Australia, Personal Investment Planners	77	Advisers - 100	300
28	Matrix Planning Solutions	Matrix Planning Solutions	73	Private - 100	1,000
29	Wilson HTM	Wilson HTM Investment	67	Private - 100	809
30	Aust. Investment & Financial Planners	Aust. Investment & Financial Planners	60	Private - 100	500
31	Bongiorno Financial Advisers	Bongiorno Financial Advisers	55	Directors and Advisers - 100	1,260
32	Bongiorno Financial Advisers	Bongiorno Financial Advisers	53	Private - 100	1,000
33	Grosvenor Securities	Grosvenor Securities	51	Private - 100	900
34	Macquarie Bank	Macquarie Strategic Financial Planning	43	Macquarie Bank - 100	2,500
35	Western Pacific Portfolio Planning	Western Pacific Portfolio Planning	40	Directors and Advisers - 100	850
36	Marsh & McLennan Group	Mercer Financial Planning	40	Marsh & McLennan Group - 100	3,000
37	Avenue Capital Management	Avenue Capital Management	40	Private - 100	780
38	Perpetual Trustees Australia Limited	Perpetual Private Clients	38	Perpetual Trustees Australia Ltd - 100	1,735
39	Bendigo Bank	Bendigo Bank Wealth Management	35	Bendigo Bank - 100	642
40	Glenhurst Corporation	Glenhurst Corporation	34	Private - 100	500
41	Fiducian Financial Services	Fiducian Financial Services	31	Listed - 100	140
42	Shadforths Limited	Shadforths Limited	30	Directors & Staff - 100	2,000
43	J.P Morgan Chase	J.P. Morgan	30	J.P Morgan Chase - 100	nd
44	NRMA Insurance Group	Clearview Retirement Solutions	30	NRMA Insurance Group - 100	1,870
45	Centrestone Wealth Management	Centrestone Wealth Management	28	Private - 100	522
46	WB Financial Management	WB Financial Management	27	Directors -70, Advisers - 30	212
47	Garrisons	Quadrant Securities	27	Garrisons - 50, principals - 50	600
48	Plan B	Plan B Financial Services	26	Advisers - 100	1,300
49	IFA Securities	IFA Securities	24	Advisers - 100	228
50	Madison Financial Group	Madison Financial Group	24	Advisers - 100	600
TOTAL			13,775		

A - Figures for Apogee and Godfrey Pembroke only. B - Figures for Ipac, Tynan Mackenzie and Monitor Money only. C - Figures for St George planners only.
D - Figures for Suncorp Financial Advisers only. E - Figures for Cameron Walshe only. nd - not disclosed.
Source: Money Management/Look Research



Batting up: boutique firms represent almost a third of the Top 50.

The boutique business bats on regardless

Big names may own most of the distribution in Australia – but, as JULIE BENNETT writes, boutiques hold the next significant space.

Money Management's Top 100 survey 2002 revealed that 42 per cent of Australia's top dealer groups are privately owned. It's a figure that has remained relatively constant over the years. Of the 42 groups that hold a position in the Top 100, 16 make it into the Top 50 Distributors list – a figure that is also comparable to previous years.

But while they represent almost a third of the Top 50 distributors, boutique dealer groups together account for only 25 per cent of all advisers in Australia, service around 729,000 of the country's three million plus clients and have combined funds under advice of about $23 billion.

Figures for numbers of clients and funds under advice are often inaccurate. Private groups are notoriously coy and many would not disclose figures to *Money Management* for either category.

Private ownership today means much the same as it did in previous years – groups are either fully owned by advisers (and sometimes their staff), fully owned by director/s (and sometimes their staff) or fully owned by a combination of all three. Four groups in the Top 50 are listed companies including Count (which is 24 per cent owned by the Lambert family), Deakin Financial Services, Investor Financial Planning and the now all-but-defunct Stockford Financial Services.

Some private groups do have some institutional support – Associated Planners, for example, is 30 per cent owned by Zurich, Professional Investment Services (PIS) is nine per cent owned by Norwich and Tower bought a 16 per cent stake in the Mawson Group late last year. But for the most part, private groups are proudly independent and keen to stay that way.

Lifespan Financial Planning is a collection of independently owned and operated financial planning practices. And managing director John Ardino thinks the benefits of independent ownership far outweigh the disadvantages.

"Real professionals really don't want to operate in an environment where there is tacit or explicit pressure to achieve sales and production quotas," he says.

"Freedom from a whole variety of inevitable and inexorable institutional pressures is one of the great rewards of independence."

Ardino argues that truly professional financial planning advice is best given by planners who are not aligned to institutions.

"Ultimately, the big end of town cares more about their profits, efficiencies and economies of scale than satisfying the needs and goals of investors. I would not like my doctors to be employed by pharmaceutical companies, or my architects and engineers to be employed by construction supply companies," he says.

He also argues that independently-owned practices can also decide what service levels they will offer their clients under their own self-determined pricing structures, irrespective of whether the parent company finds this profitable.

"Independents can, within reasonable bounds, decide on what level of business they want to build, rather than again satisfying the dictates of the principal parent company, which may decide that only very large production levels are viable," he says.

"I also believe that client satisfaction is more likely to be higher if [a planner] is free of these pressures and so their work satisfaction is enhanced."

But running a small boutique practice is not without its share of problems. And they are the same problems associated with running any small business.

This, says Ardino, includes lack of large scale financial and human resources, higher professional indemnity, technology and infrastructure costs, and lack of economies of scale. And of course, the competition posed by the large institutions.

"Large institutions can offer cut price or free plans or reviews," Ardino says.

How we found the Top 50

Introduction

The economic wellbeing or standard of living of individuals and families is largely dependent on the economic and social resources available to provide for their consumption of goods and services and for participation in society. Such resources may be in the form of cash income received from wages and salaries or investments, or as income support from government. Other factors can also contribute to the level of consumption of goods and services, including using personal resources such as savings, services such as aged care, respite care and child care from government and welfare organisations, and assistance from family and friends.

Government programs aim to help the economically disadvantaged to achieve social and economic outcomes and to participate in society. Such programs include those of the Department of Family and Community Services (FaCS), which provides income security for the retired, people with disabilities, carers, unemployed people, students, families with children, and Indigenous Australians. Other departments provide income support for other special groups, such as war veterans, war widows and their families, and students. In addition to cash income, government programs also help those with low incomes to meet payments for housing through rent assistance, and for a range of goods and services through pensioner concession and health cards, and other services aimed at helping people in personal and social hardship. Other types of programs aim to provide assistance with employment, and advocacy for people with disabilities.

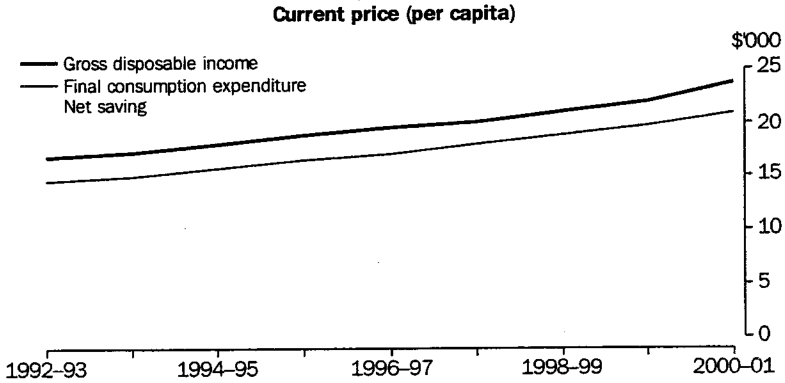
This chapter provides information on the levels and sources of income of Australia's population and on the levels and patterns of expenditure on consumer goods and services. Further information is provided on the main income support programs of the Commonwealth Government, describing the eligibility requirements, numbers of beneficiaries and government expenditure on these programs. It covers these in four sections: Income support programs of the FaCS; Community support programs of the Department of Family and Community Services; Aged care programs of the Department of Health and Ageing; and services provided by the Department of Veterans' Affairs.

Household income and expenditure

Aggregate income and expenditure

An overview of the income, expenditure and wealth of Australian residents is available from the Australian System of National Accounts. Selected aggregates relating to households are presented in graph 7.1. Between 1992–93 and 2000–01, gross household disposable income per capita and household final consumption expenditure per capita have been steadily growing. More information is available in *Chapter 29, National accounts*.

7.1 HOUSEHOLD INCOME, EXPENDITURE AND NET SAVING, Current price (per capita)



Source: Australian System of National Accounts (5204.0).