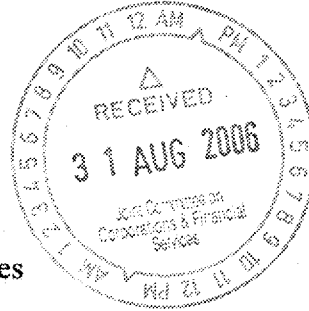


30 August 2006



Committee Secretary  
Parliamentary Joint Committee on  
Corporations and Financial Services  
Department of the Senate  
PO Box 6100  
Parliament House  
Canberra ACT 2600

Dear Sir/Madam

We refer to the above enquiry and have viewed the terms of reference and seek to lodge a submission in respect of:

- The role of Advice in Superannuation

**Background:**

AFS Group Ltd through its subsidiaries Australian Financial Services Ltd and Strategy Portfolio Ltd operates in the financial services industry. Australian Financial Services Limited holds an AFSL No 297239 and currently has over 170 Authorised Representatives in more than 80 locations Australia Wide.

Through its adviser network it services over 70,000 clients with approximately \$4.5 Billion in Funds Under Advice.

The AFS Group has no Institutional ownership and is owned by adviser shareholders who have purchased equity in the group and the group consists of over 80 separate small businesses. AFS Group advisers are remunerated in a number of ways including both Fee based and Commission based payments.

The AFS Group does not manufacture product or act as the distribution arm of any one fund manager and operates an extensive approved product list that consists of independently researched products and services to meet client needs and objectives.

**What is the Role of Advice in Superannuation?**

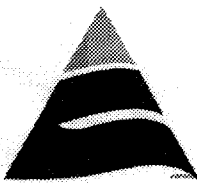
If we simplify the definition that Superannuation is basically a Tax Efficient method of investing money today to provide an income in retirement then advice has a crucial role to play in Superannuation.

It is even more important that the advice is provided by qualified professional financial advisers who are able to take into account the individual clients circumstances and goals.



**FPA**

FINANCIAL PLANNING  
ASSOCIATION  
of Australia Limited  
PRINCIPAL MEMBER



A better question would be, how much advice do clients need and how should it be provided?

The superannuation industry has been polarized between advice based superannuation from a Licensed and Authorised Financial Adviser and industry funds where the advice is limited to advertisements and sporting team sponsorship so let's

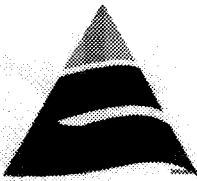
### “Compare the Pair”

#### 1. Know your client.

Financial Advisers	Industry Funds (No advice)
<p>A financial adviser before making any recommendation in regard to superannuation will:</p> <ul style="list-style-type: none"> <li>- Provide you with a Financial Services Guide that details their relationship with you, their qualifications and method of remuneration.</li> <li>- Undertake a client fact find which details the clients' current position and their short medium and long term goals.</li> <li>- Understand the client's attitude to risk and volatility.</li> <li>- Look to gauge the clients' financial literacy.</li> <li>- Offer an on-going relationship with a service model that addresses the clients' requirements.</li> </ul> <p><i>This exploration of the client as the base for advice allows needs based advice tailored for an individual.</i></p>	<p>Advertising that says:</p> <p>“If you work in the hospitality industry your fund is Host”</p> <p>“If you work in the medical field your fund is Hesta”</p> <p><i>Not everybody that works in an industry is the same.</i></p> <p><i>An unmarried 21 year old kitchen hand at the local restaurant has much different superannuation needs than the Head Chef at the Hyatt who is married with dependant children has a mortgage and other debts and will be looking to retire in 5 years, yet without individual advice is unlikely to achieve his goals.</i></p>

#### 2. Know your Product. 1.

Financial Advisers	Industry Funds (No advice)
<p>A financial adviser will take the information gained from the client and provide advice on a suitable type of Superannuation.</p> <p>An adviser will base the advice on matching the clients' needs to the type of superannuation fund.</p> <ul style="list-style-type: none"> <li>- Is a Self Managed Superannuation Fund a Personal Master Trust or a Corporate Mater Trust the right fund.</li> </ul>	<p>Industry Fund advertisements would have us believe that all Superannuation funds are the same and the Industry Funds are better because they don't pay commission to financial advisers.</p> <p>More importantly these same advertisements would have us believe that all Industry Funds are the same.</p>



<p>- Is the client eligible to be a member of a Public Sector or a Large Corporate Fund or are they best suited for an Industry Fund. Perhaps more importantly within the different types of Superannuation Fund, which fund is more appropriate – is TPD insurance a key requirement or perhaps the ability to transition directly to an allocated pension without needing to roll is a key requirement.</p> <p><i>To a financial adviser not all Superannuation Funds are the same and the value of the advice is matching the clients' needs to the fund. A financial adviser understands that paying for an unwanted feature can add to the cost and lower the return of the fund but not being in a suitable fund because you have listened to advertising rather than advice can be far more costly in both missed opportunities and loss of benefits.</i></p>	<p><i>It is misleading to induce the public to believe that a Self Managed Fund has any similarity to the Military Super Fund or is the same as an Employer Corporate Master Trust.</i></p> <p><i>It is also misleading the public to have them believe that the CBUS fund for the Construction and building employees has the same features, costs and returns as the MIESF (Meat Industry Employees Superannuation Fund).</i></p> <p><i>A client who selects their superannuation scheme simply on the basis of the industry they work in is less likely to reach their retirement goals.</i></p>
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**3. Know your Product. 2 (Features)**

<b>Financial Advisers</b>	<b>Industry Funds</b>
<p>The overall value of the advice in regard to Superannuation Funds is not which is the cheapest but it is about suitability. Advisers know the compounding impact of fees and charges over a long investment period but that is only one small part of the considerations that need to be made.</p> <p>As part of the advice process the adviser will look at the insurance needs of the client, for many it is more important to be a member of a fund that pays a commission to an adviser but offers an appropriate level of insurance cover at a beneficial premium than a fund that offers only token levels of life cover. Australia as a nation is dangerously under-insured and the campaign against advice based superannuation is directly contributing to the level of under-</p>	<p>The Industry funds would have us believe that all you need to do is put your money in any one of their funds and simply because they don't pay fees you will get a better result than someone who seeks and pays for advice.</p> <p>Without advice an employee who puts their super into an industry fund without adequate insurance will not recognize that they are likely to be more disadvantaged if they are injured and unable to return.</p> <p>The advertising and lack of advice that is offered by the Industry Funds is directly leading to the lack of retirement savings, the public who see the advertising believe that all they need to do is stick with an industry fund "that's right for their industry" and they will reach their</p>

<p>insurance.</p> <p>Advisers are not allowed to advertise on the performance of funds yet an adviser who sees that a client with an appropriate risk profile needs to undertake a gearing strategy within their super fund is able to advise on this (at a cost) but the end result may be that the client meets their retirement target and is self funding rather than reliant on a pension.</p> <p>The Super Guarantee Scheme is a good start however part of the advice provided by an adviser will be a calculation of the amount required to reach your retirement target and this is without exception more than the SGC amount. Australians have a poor attitude to savings which is contributing to the drain on aged resources and without the superannuation advice industry more Australians will retire without the means to support themselves. Advisers will recommend strategies that either increase the savings or look to provide greater returns either within or outside superannuation.</p> <p><i>The advice provided by an adviser can be far more valuable than the cost it represents. The superannuation advice industry provides value not just in the fund itself but helps to address both the National Under-Insurance position and the Critical lack of savings position Australia finds itself in.</i></p>	<p>retirement goals.</p> <p><i>Without advice a client runs the risk of being underinsured and less likely to meet their retirement goals. An Industry Fund may be an appropriate Superannuation vehicle but not without professional advice.</i></p>
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**4. Know your Product 3. Disclosure of costs**

<b>Financial Advisers</b>	<b>Industry Funds (No advice)</b>
<p>Part of the value of advice proposition is that a financial adviser will disclose all of the fees charges and costs associated with the advice.</p> <p>Advisers are increasingly being required to defend whether investing in a recommended Superannuation fund offers value for the advice when they can invest more cheaply in an Industry Fund.</p> <p>This is the wrong question and it should</p>	<p>The major concern is that Industry Funds are not open about the amount of fees and charges, their fund mandates do not match appropriate risk profiles and they do not seek independent research to support their claims. When you add the cost of the advice and research required to the cost of the fund plus extra stand alone life insurance it may no longer be appropriate to recommend an Industry</p>



<p>be advising whether the industry fund is an appropriate fund to for the client.</p> <p><i>The debate about Superannuation advice has been hijacked from the value proposition of appropriate superannuation to the method of payment and this has resulted in clients not receiving advice.</i></p>	<p>Fund.</p> <p><i>If you go the doctors and are prescribed antibiotics to fight an infection do you buy a decongestant from the chemist because it's cheaper? Without licensed professional advice the public run the risk of getting bandaaid advice that doesn't address the long term problems of under insurance and lack of savings.</i></p>
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**Summary**

Good advice has a cost but if it meets your needs and objectives it represents value for money.

Unsuitable or No advice may look attractive and value for money on the surface but if it doesn't address the needs and objectives of the client then it is expensive.

The value of good advice from a licensed professional is nowhere more important than in Superannuation because if we don't get it right then the economy will not be able to afford a generation of under superannuated retirees in the future.

There is a place for Industry Funds alongside other Superannuation funds however in their current guise offering no advice, limited life and TPD cover and without true disclosure of costs and fees they do not represent the value proposition the Government, Regulators and Consumer Groups represent them as.

The debate needs to shift from the cost of the advice to the value of the advice and the need to obtain needs based advice from a licensed professional adviser.

The true value of the advice is not measured in the commission paid for that advice but whether it will allow the client to meet their retirement objectives and provide for them or their families if they can't work until retirement.

Yours truly,



**Peter Daly**  
**Group CEO**  
**AES Group Ltd**