

Bendigo Financial Planning

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



30 August 2006

Dear Sir,

Inquiry into the Structure of the Superannuation Industry

I wish to provide this submission to the Committee for its consideration on the issue of **"the role of advice in superannuation"**.

As a compliance manager responsible for overseeing the compliance obligations of a network of advisers working within a banking financial planning dealership, I experience first hand the issues surrounding superannuation advice to customers who generally have small superannuation balances. The current FSRA requirements have made it impossible to provide cost effective advice to these customers as the costs of giving and documenting the advice outweigh any financial benefits that may flow to either the customer or the financial planner. I've summarised a common scenario below to illustrate this point.

On a regular basis customers will request advisers to review their existing superannuation arrangements. The customer will typically have 3 – 5 small existing policies totaling no more than \$15,000 and has become frustrated with the lack of any meaningful service from any of the super providers. The customer wants to know the most appropriate place to rollover and consolidate their super and make future contributions.

To meet the requirements of the Corporations Act 2001 (Cth) and to address the customer's request, our financial planners must undertake a detailed review of all existing superannuation policies, generally by requesting access to information from the superannuation funds involved (which are typically not in any hurry to assist) or using the internet to download information including PDSs. In many cases the relevant PDS may be outdated or in the case of an old life super policy, disclosure documentation will no longer be available. In most cases the adviser needs to source independent research on the various super investments and then make a recommendation outlined in the format of a Statement of Advice ("**SOA**"), in accordance with the requirements of the Corporations Act and ASIC Policy Statement 175. The SOA must include comprehensive comparisons between each "from" fund and the recommended "to" fund, clarifying and

Bendigo Financial Planning Ltd, is a member of the Bendigo Bank group of companies.
120 Harbour Esplanade, Docklands, VIC 3008. ABN 81 087 585 073 AFSL 237898
Ph: +61 3 1300 366 666 Fax: +61 3 8414 7242 www.bendigobank.com.au



explaining differences in costs, fees, benefits, Management Expense Ratios, terms and conditions etc. The standard number of hours to complete any sort of meaningful assessment is around 10 -15. Consequently, to simply meet our costs the customer would be required to pay between \$1,500 and \$3,000 for the work to be completed. Our experience is that customers are not prepared to pay this. Typically they are confused and can't understand why such a simple request can't be satisfied with a simple solution. Our financial planners are genuinely doing their best to meet their customers' needs, however, in too many cases the customer is left wanting.

Ultimately, we are left with an annoyed customer who has difficulty understanding why we can't accommodate their needs by simply recommending that they roll over their funds into either their most appropriate existing super investment or a new superannuation product appropriate for them. We have found that these customers, often seeing a financial planner for the first time, lose confidence in the financial planning industry and are bewildered as to how a regulatory environment has evolved where a qualified professional financial planner cannot provide a solution to a simple but important superannuation need.

As a former ASIC employee and FPA Case Manager I fully appreciate what the legislation is attempting to achieve. Churning is, and has been, a real issue in our industry and must be eliminated. However, common sense must prevail where we have clients looking for guidance on small sums of superannuation. Unfortunately, as the situation currently stands, these clients are not able to be properly serviced due to the current compliance requirements.

The question of what can be done to redress this issue is not one that is easy to answer. Setting a dollar limit, where any advice relating to superannuation balances below certain amounts does not require a full analysis is one option that could be explored. Naturally, certain minimum standards would need to be met but the more detailed investigation would not be necessary. Consideration also needs to be given to exempting the adviser from the SOA requirements where the adviser is merely recommending the customer retain their current industry super fund.

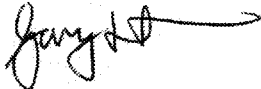
It is frustrating to be continually hearing industry funds concentrating on fees and commissions and how they affect returns in their self promotional material, when there are arguably more significant issues they should be addressing. The number of members who have their funds invested inappropriately is a prime example.

My experience in this area is that a significant number of industry fund policy holders have their superannuation invested in inappropriate investments with insufficient life insurance, and in some cases inappropriate or unnecessary life insurance. For instance, it is common for our financial planners to come across young customers whose superannuation is invested in the default option within their industry fund for no other reason than no one has discussed where their

funds should be invested. Once again, this is an area where we are unable to effectively advise without charging a fee for service. Industry funds can level an untold amount of criticism at financial planners regarding fees and how they impact long term returns. However, they conveniently, and potentially negligently, fail to raise the issue of lost earnings due to inappropriately invested funds. Interestingly, industry funds through their PDSs, often recommend their policy holders to seek advice from financial planners on the appropriate asset allocation within their super fund. This is advice that they should be providing personally and not abrogating to an outside party who is unable to provide this advice in a cost effective way due to the compliance costs associated with such advice.

I would urge the Committee to consider reducing the compliance obligations in the area of superannuation where the funds being considered are limited to certain amounts.

Yours Sincerely

A handwritten signature in dark ink, appearing to read 'Gary Martin', with a stylized flourish extending to the right.

**Gary Martin
Compliance Manager
Bendigo Financial Planning**