

COLLINS HOUSE

FINANCIAL SERVICES PTY LTD

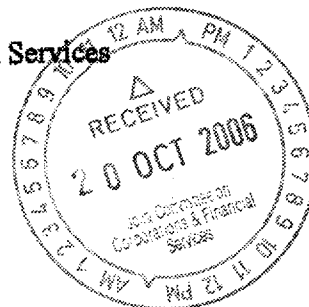
19th October 2006

Collins House Financial Services Pty Ltd
ABN 69 085 507 731

Level 34, 360 Collins Street, Melbourne, Victoria 3000
PO Box 215, Collins Street West, Victoria, 3007

Telephone (03) 9605 9222
Facsimile: (03) 9605 9249
Email: chfs@collinshouse.com.au
Web: www.collinshouse.com.au

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



Dear Mr Sullivan

Re: Terms of reference: No.11, 'Whether promotional advertising should be a cost to a fund and, therefore, to its members' and No.12, 'The meaning of the concepts "not for profit" and "all profits go to members".'

I am the Managing Director of Collins House Financial Services Pty Ltd (Collins House), have 25 years of experience in the financial planning industry, and currently sit on the Board of the Financial Industry Complaints Service Ltd (FICS).

The following submission is my own, and should not be seen to be representing any other body.

Regardless of whether or not advertising is a cost to a fund and its members, or claims that a fund paints itself 'not for profit' or that "all profits go to members", there are some very important issues that are being glossed over in some of the Industry Fund advertisements aired recently on television, that warrant closer scrutiny, and one in particular, is doing consumers much harm.

The recent Industry Fund advertisements on TV ignore the value of financial advice and conveniently overlook the fact that the fees charged by retail funds go toward paying for financial advice for members of these funds.

Let me give you a real life example. (some of the details have been changed to protect the client's identity). A young gentleman came to see me for financial advice some time ago. He was a member of an Industry Fund with about \$35,000 in it, and didn't have a financial advisor. Unfortunately, this poor fellow had contracted a very serious illness.



Collins House Group

Collins House Legal
Lawyers

Collins House Financial Services Pty Ltd
Australian Financial Services Licensee (Licence No 230546)
Certified Financial Planners, Registered General Insurance Brokers, Registered Life Insurance Brokers

Collins House Accounting
Certified Practising Accountants



I investigated his Industry Fund and found out that his total disability insurance payout was only \$80,000 and there was no income protection policy. Compounding his misfortune, his wife had left him and he had a large mortgage with mounting medical bills to pay.

Had he seen a Qualified Financial Advisor, he most likely would have been advised to increase his insurance cover within the fund and to effect appropriate income protection insurance, as his Industry Fund clearly didn't provide adequate life insurance cover, and no income protection cover.

So much for Industry Funds not paying Commission to Financial Advisors! In this case the commission of perhaps a few hundred dollars a year cost this member \$670,000, at a time when he desperately needed it.

Even had he seen such a Qualified Adviser, and the right advice was not provided, the client would most likely have a legitimate complaint, and he could have sought compensation.

If this case went to FICS, I would be surprised if the Adviser's licensee would not be liable, as the advice would be deemed to be negligent if the Adviser did not recommend the client effect adequate insurance cover.

In a nutshell, the Industry Funds advertising campaign is not only discouraging consumers from seeking appropriate advice, but also preventing consumers from the protection afforded to them if they do seek advice.

That is: if the advice is negligent then they could seek redress without cost through FICS or other external dispute resolution schemes.

Lastly, I am firmly of the view that a 'voice-over' disclaimer, similar to those at the end of political advertisements, should warn viewers to seek professional financial advice to ensure that a product meets their individual circumstances and the dangers of not seeking professional financial advice.

I trust that the Committee can consider these issues during the course of their deliberations.

Yours sincerely

Collins House Financial Services Pty Ltd

Dominic Alafaci CPA, CFP, FPPA, B.Ec, B.Bus. (Acc)
Managing Director