RECEIVED
5 AUG 2009

FINANCE CONTROL
GOALS - OBJECTIVES - ADVICE - LIFESTYLE

RCB Investments Pty Ltd
ABN 20 108 532 501
T/A Finance Control

Authorised Representative
GWM Adviser Services Limited
Australian Financial Services Licensee

Lighthouse Lane
145-149 King Street
Warrawong NSW 2502

PO Box 256
Warrawong NSW 2502

Tel 02 4276 2557
Fax 02 4276 2558

quality@financecontrol.com.au
www.financecontrol.com.au

31 July 2009

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

Dear Sir,

Finance Control welcomes the opportunity to make a submission to the Parliamentary Joint Committee on Corporations & Financial Services inquiry into Financial Products & Services in Australia.

Finance Control is a Financial Planning business, established in 1983 in Wollongong, and today employs 21 staff including 10 full time advisers. Finance Control prides itself on providing comprehensive quality advice, ensuring the client's needs are always at the centre of all advice. Our advice, tailored around each individual's circumstances, goals and objectives allows clients to take control of their financial future. In turn, having an understanding and commitment to this advice, our largely mum and dad client base are well on the way to achieving their lifestyle and retirement aspirations, which is clearly of significant value.

Finance Control acknowledges change in our industry is required, and particularly in light of recent events, such as Storm Financial and the negative impact it has had on the way our industry has been portrayed. In addition, the fee vs commission debate in light of more recent failures such as Timbercorp and Great Southern Plantations has reached a point where action is required to allow the industry to move forward, restore investor confidence and get on with the important role of addressing the longer term issue, this country's significant insurance and retirement saving gaps.

Having said that, it must also be recognised that there are a large proportion of advice businesses in our industry, who like Finance Control moved to a fee for advice model many years ago. Acknowledging the negative way in which the industry has been portrayed by some elements of the media in recent times, change needs to happen. Finance Control welcomes this debate and joins the growing consensus within the industry that at a point in the not too distant future, commissions will be phased out.

In terms of our license, Garvan which in turn is part of MLC, who in turn have been at the forefront of the debate for many years advocating the need for change regarding the issue of commissions.

At a big picture level, given the size of the retirement savings gap and under insurance facing many Australians, it is critical that we restore people's confidence in our industry, to ensure that more Australian's actually seek advice, to assist them address this gap and therefore reducing the burden on the public purse in future years.

One area that we do believe is critical to achieving this is to continue to lift the bar in terms of the quality of advice being provided by our industry as a whole.

Like most issues, there is no single solution, but a combination of factors that need to be taken into account. In this submission we have attempted to outline, a number of issues that play within our industry at present, from the perspective of a business at the coal face.

What the Government needs to be mindful of is not to seek to impose further complex regulations on the industry because of the actions of several fringe operators. It is important that any changes made do not adversely impact the vast majority of the industry or add significantly to the cost to Australians in seeking advice in the future.

1. Advice Models

The recent collapse of AFSL holder Storm Financial has again raised the issue of what is appropriate advice provided to clients. In the case of Storm, the advice focussed on using borrowed funds and investing into the Stock market with Storm's primary source of income being received at the front end of the process, ie when the advice was implemented.

We are not here to approve or disprove existing advice models, however recent events where high upfront fees, and in some cases commissions, were received by the advisers has left the investor in a troubled position. Westpoint, Timbercorp, Great Southern and the Storm collapses have left investors in a position where they may not recover.

It is worth noting that ASIC in a statement to the Senate Standing Committee on Economics in February 2009 stated that the relevant provisions of the Corporations Act are based on a presumption that licensees will comply and their role therefore is one of oversight and supervision.

What the case of Storm does call into question is the ability of ASIC to adequately monitor the many so called 'independent' or 'self licensed' businesses. As part of the process of applying for a Financial Services licence, an applicant must demonstrate that it has the appropriate training and skills to provide financial services in the manner required by the Corporations Act and that it has the necessary compliance and other management processes in place to enable adherence to the requirements of the Licence. As part of the application the applicant must provide ASIC with their business model and information as to how they propose to meet their obligations. Clearly this inquiry needs to investigate how any business model based on high pressure selling, high fees and client investment strategies based on high levels of gearing is able to meet the requirements for gaining a Australian Financial Services Licence.

These conditions include the so called "Know your Client rule", and "profiling client Risk Tolerance".

For many working within our industry, Storm was not a failure of the financial planning industry or a failure of the FSR Legislation. It was a failure of the Storm model, principally reliant on the Stock Market continuing to "bull run". The full details of the Storm collapse and the role all parties played are yet to be fully identified however the question of Risk Profiling will certainly be at the forefront.

Risk Profling is the measurement which is used to determine what an individual's tolerance to the risk of their investment is? The more aggressive the investment the higher the risk profile. In a normal risk profiling model, borrowing to invest is at the highest end of risk tolerance.

A vast majority of financial planning businesses and particularly those associated with the larger Financial Advisory networks such as Garvan & MLC have robust, well resourced compliance systems, with checks and balances in place which prevent clients being placed into inappropriate investments.

The reality is as with any other profession, the majority of financial planners and advisers strive to deliver quality advice to their clients.

What the collapse of Storm Financial also demonstrates from a client perspective is that there is value in adviser practices belonging to a major financial Advisory Network that provides the benefit of comprehensive professional indemnity and capital backing.

Many Australians are benefitting greatly from the financial advice they are receiving during these times of volatile markets. Understandingly many people are very anxious about the effect of the financial crisis on their superannuation and other investments. Like many advice business, Finance Control conducts as part of its annual review process, face to face meetings with clients, along with regular phone contact, newsletters and seminars etc. The advice delivered by advisers has in turn assisted clients to respond calmly to the crisis, and to avoid unnecessary losses that could be crystallised due to rash and uninformed decisions.

2. Fees vs Commission

In the wake of one of the biggest market shakeouts in a generation, combined with the collapse of Storm Financial and more recently Timbercorp and Great Southern Plantations where high upfront commissions were paid, has resulted in reigniting the debate of Fees vs Commissions.

In recent times we have seen the Investment & Financial Services Association (IFSA) join the FPA along with the likes of MLC and others in calling for the banning of commissions. These calls are in line with recent moves in the UK where their Financial Services Authority has moved to ban commission payments to financial advisers by the end of 2012.

Finance Control supports moves inline with the recent changes in the UK whereby if you receive commissions on investment products you are classified as a product adviser, but only a fee based adviser can use the term Financial Planner.

Whilst this debate is not new within our industry, in fact it has been around for many years, there are a growing number of individuals, and institutions who believe the time has come to act in order to remove the distraction and negative impact it is having. This in turn will allow the industry to move forward and get on with the main game which is about educating the broader public of what financial advisers do, and how valuable advice can be for those who seek it.

The whole issue of Fees vs Commissions really comes back to the ability of advisers to demonstrate value to the client. When this has been done, we have found clients have little issue paying a fee for the advice. The value of advice therefore becomes the most important factor in determining whether remuneration is appropriate or not, not whether a product we have recommended pays commission.

Case Study

We have included a case study of a real Finance Control client and the value that has been able to added through our comprehensive and strategic advice model (note: the names of the clients have been changed for privacy purposes).

Finance Control Clients : John aged 32 & Maria age 27

Current situation:

- John earns $40,000 and Maria earns $45,000.
- You have estimated your current annual costs of living to be $39,196
- Our risk tolerance assessment has classified you as 'Growth' type investors.
- Your home is valued between $680,000 & $700,000 which is encumbered by a loan of $392,000. You have $15,000 in a 100% offset account which reduces the loan balance to $377,000
- You have an interest free loan of $4,665 and a vehicle lease which financed the purchase of John's work car, current balance of approximately $38,000.
- Your total investment assets (including super) is approximately $27,609.

Goals:

- You would like to build up assets & wealth for your future.
- You wish to consider options available for any additional income streams.
- You would like to repay debts.
- You would like to reduce tax wherever possible to increase cashflow.
- You wish to look at strategies around superannuation.

- You wish to ensure that adequate protection is provided for both of you in the event of accident, illness and/or death.
- You would like to review your estate planning needs.
- You would like to fund the following planned expenses:

Description	Date	Value
Home Improvements Gardening	April 2010	$10,000
Starting a Family (1 year of Maria's income)	July 2010	$40,000
Vehicle	April 2011	$37,000
Total		**$87,000**

Retirement Analysis
You have stated that you each wish to retire in 32 years time. You have stated that you wish to have an annual retirement income of approximately $60,000 in today's dollars indexed to inflation until Maria's life expectancy, which is deemed to be 31 years from retirement. Our calculations show that to provide an income throughout your retirement equivalent to $60,000, you will need a nest egg of $801,504 in today's dollars upon retirement (including potential Centrelink benefits).

Should you continue as you are, it is estimated that your investable assets will have the equivalent value of $323,552 upon retirement in today's dollars. This sum will produce annual income at retirement of approximately $37,465 in today's dollars (including potential Centrelink benefits) through to your life expectancy.

Based on your current situation we do not believe you will achieve your retirement income needs. We estimate that you will have a nest egg shortfall or gap of $477,952, and as such have an annual income shortfall of approximately $22,535 throughout your retirement years.

The financial advice provided:

- Reduces personal income tax, (saving approximately $3,321 in the first year), which between now and John's retirement represents a saving of $92,988
- You are reducing risk and saving interest on your mortgage by selling down Maria's share portfolio.
- The recommended gearing and debt recycling strategy will reduce your home loan term by 4 years and save you $113,434 interest expense.
- All stated planned expenses will be funded
- At retirement we estimate that the geared portfolio will be valued at approximately $1,209,408 after CGT and loan repayment.
- You will each benefit from a Government Co-Contribution. In the first year this totals approximately $1,759 and between now and John's retirement this represents additional superannuation contributions of $49,252.
- You will benefit from a fee saving of **$35,423** by rolling over your superannuation benefits between now and retirement.
- Enhanced diversification and management of your superannuation benefits and realignment of asset allocation to ensure it is appropriate to your risk profile.
- You will have the peace of mind, knowing that in the event of death, disability or critical illness you will have adequate insurance in place to ensure that the family remains financially secure. In addition through the recommended level premiums insurance will remain affordable over the long term and when you need it most.
- You will have the peace of mind knowing that your wishes will be kept in the event of your physical or mental incapacity, or death through the recommended comprehensive estate plan.
- It is estimated that upon reaching retirement, you will have net investable assets, excluding your home, of $860,839 in today's dollars. This represents an increase

of $537,287 when compared to your current projection. This strategy will provide you with a retirement income of $62,519 through to Maria's life expectancy. This represents an increase in your annual retirement income of $25,054 per annum over your current income position. This increase provides you with an additional income of **$776,674** within your retirement years.

Total Value Added from Advice (Net of Fees): **$812,097**

The above is a clear demonstration that we can impact on many clients' lives and when articulated to client, the issue of paying a fee quickly disappears. Further in our submission we have included a set of Financial Myths that the above case study clearly addresses.

Finance Control has found we have little issue with clients paying a fee once the value has been demonstrated.

Comprehensive, appropriate personalised advice can help Australians take control of their financial future.

3. The Advice Gap

Given the current level of under-insurance and the size of the retirement savings gap that currently exists in Australia, the important role of financial advisers, and the need for the delivery of quality advice has never been greater.

INSURANCE GAP

Despite the fact that almost every working Australian has a level of life insurance cover within their superannuation, Australia has proved to be one of the most underinsured nations in the developed world.

Whilst 83% of Australians say they have insurance for their car, most Australians don't value their most important asset – their ability to earn an income with only 31% insure their ability to earn an income with income protection insurance. Clearly most Australians think it won't happen to them – 'She'll be right' won't she?

The reality is however that more than three in four Australians will be diagnosed with a serious illness in their working life. More than 50,000 people were hospitalised due to transport accidents in 2005-06 with over 5 days in hospital. The majority of those (81%) were working age. Over 1,600 people die on Australian roads every year, most aged 26 - 59 years. One third of women and a quarter of all men will suffer cancer at some stage in their lifetime – over half of whom will live for longer than five years after diagnosis. High levels of debt and relatively low levels of national savings mean most are unprepared for the unthinkable!

Rice Warner Actuaries estimate that life insurance cover within super is on average only 20% of what is needed. Research commissioned by IFSA in 2005 showed that only 4% ofAustralian families with dependent children have adequate levels of insurance cover (that is 10 times earnings as recommended by Rice Warner Actuaries). This means that Australian families are critically underinsured to the tune of $1.37 trillion. Rice Warner Actuaries says underinsurance costs Australian tax payers over $250 million a year.

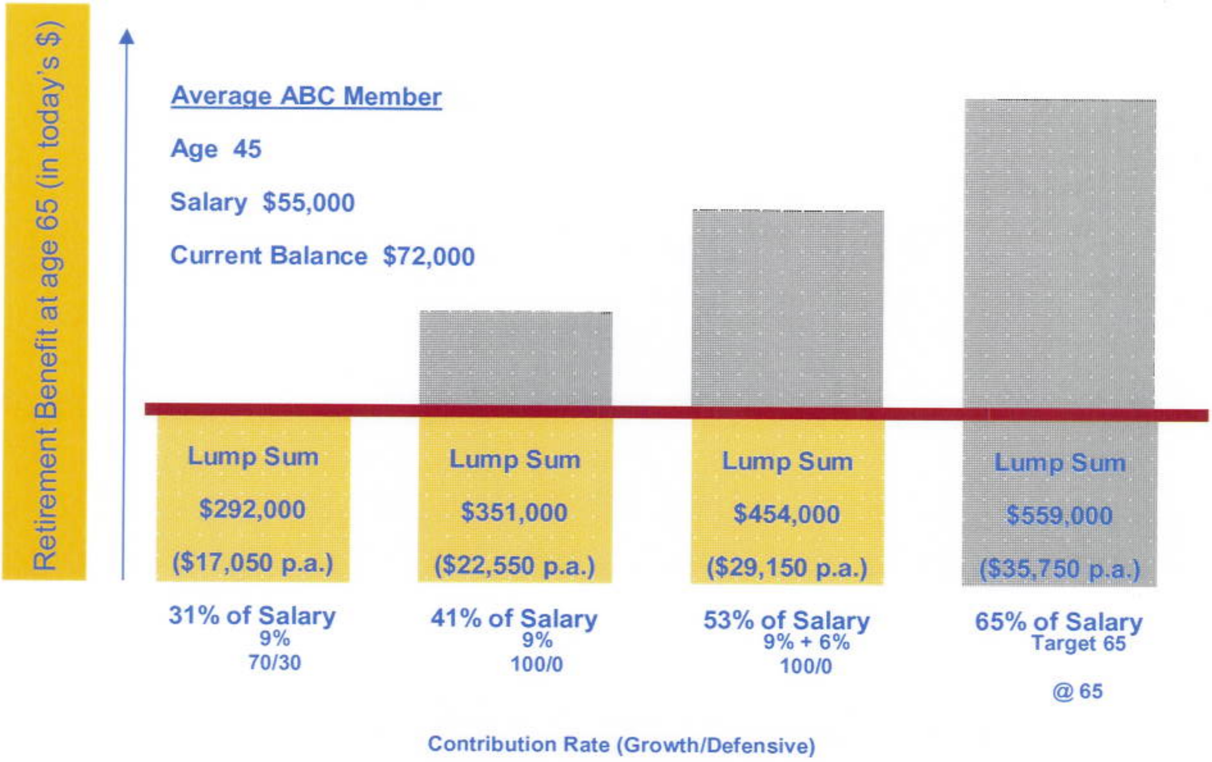
Rice Warner Actuaries estimates the additional social security payments arising from deaths of parents with limited insurance to be in the order of $250 million per year. And this estimate does not take into account other costs/losses to government revenue such as provision of housing and loss of income tax revenue.

INVESTMENT GAP

The retirement savings gap facing most Australian's is equally concerning. Within the industry it is generally acceptable that most Australians will be reasonably comfortable if they can achieve 65% of their pre-retirement income. Unfortunately, for those Australians reliant solely on the 9% compulsory super, they are likely to achieve only 35% of their pre-retirement income in retirement.

Closing the Gap

The impact of influencing savings behavior is dramatic



The above graph further illustrates the extent of the current retirement savings gap. The example below is based on a 45 year old earnings $55,000 per year with a current superannuation balance of $72,000, not an uncommon situation. Based on continuing through to 65 years of age with standard 9% superannuation contributions, they will end up with a lump sum of $292,000 or the equivalent of 31% of their pre-retirement income, assuming a standard balanced investment strategy. Moving to a 100% growth strategy improves the outcome to 41% of pre-retirement income. Contributing an additional 6% to super in additional to the compulsory 9% improves the results to 53 percent but is still not enough to close the retirement savings gap.

With Advice, there may well be some additional strategies that could be implemented to make up this gap.

It can never be too early but it can be too late!

4. Financial Advice Myths

As a part of our education program, Finance Control has developed a set of financial myths that we believe are common amongst many Australians.

Given the value advice can make to the average Australian, as outlined in the case study in this submission, we believe education is critical to the future of our industry to ensure more Australians seek personal financial advice.

Myth 1 - My superannuation will fund my retirement

The government implemented the compulsory Superannuation Guarantee (SG) in 1992 to help Australian employees fund for retirement. While the intention is admirable, unfortunately the majority of Australians will still fall short of their retirement expectations. The average Australian employee, who relies solely on the 9% SG for their retirement nest egg, will end up with around 35% of their pre retirement income.

The SG is a very important part of an employees financial life, however the employment market place contains those people that are self employed and do not have a requirement to pay themselves the SGC.

Myth busted

Myth 2 - I don't have enough money to invest to get financial advice

This is probably the greatest myth in the drive to have Australians seek financial advice. Having $$ to invest is only one part of a clients advice strategy and while important is certainly not the be all and end all. In fact, the value added to clients in other areas such as insurance and estate planning can be more important to an individual than how much they have to invest.

People don't think about their super as an investment and give little thought to receiving advice on how these funds should be invested. The right advice early can lead to a substantial improvement in your retirement years. Advice just on your super is a valid option.

Myth busted

Myth 3 - I can access my Superannuation at age 55 and retire

Over the years, the government has changed the preservation rules relating to when people are able to access their superannuation. The current ruling is if you are born after 30 June 1964 you are unable to access these monies until age 60.

The recent budget announced a further proposed change to the age for pension entitlements from 65 to 67. Will this change the preservation rules again?

Myth busted

Myth 4 - Getting Financial Advice costs too much

What is the cost of not getting any advice? The myth around costing too much has been primarily driven by people who have been to get advice but have not had it made clear what value they are getting in return for paying their fee.

Whether the cost of the advice is $500, $2,000 or $15,000 provided there is a clear demonstration of the value the client will receive people are happy to pay.

Payment of the fee is another area where there maybe a misconception from prospective clients. The government has been generous in allowing financial institutions to set up alternatives for the way clients can pay for the advice they receive, therefore it does not have to be from your bank account.

Myth busted

Myth 5 - I do not need advice or a financial adviser

3 in 10 Australians have a financial strategy in place

1 in 5 Australians have no documented budget

80% of Australians will retire with less than they expect

1 out of 2 Australians do not have a Will in place

Is this you?

Conclusion

Finance Control supports all moves that transition the financial planning industry from a cottage industry to a fully fledged profession. We understand it cannot be done overnight but some significant steps can certainly be taken to expediate the transition.

Firstly, we support the move away from commission based remuneration towards fee for advice. The time has come for the industry to make a united stand. Transparency of remuneration is not enough.

Secondly, to be recognised as a profession, advisers need to ensure the clients they look after are given the opportunity to have all areas of their financial needs covered.

Thirdly, as we transition to a profession, clients need to know the type of adviser they are going to see and what type of advice they will receive. For advisers who have an advice model based comprehensive advice and charge a fee, they could be known as financial planners. For advisers who wish to continue to be remunerated by commission they can be identified as product advisers.

Finally, given the size of the retirement savings gap and under insurance facing many Australians, it is critical that we restore people's confidence in our industry, to ensure more Australian's seek advice, take control of their financial future, and thereby reducing their reliance on the public purse in future years.

Kind regards,

Paul Rawson
Principal Adviser/Director

James Boon
Principal Adviser/Director

Mark Grimson
Chief Executive Officer