Parliamentary Joint Committee on Corporations and Financial Services Inquiry into financial products and services in Australia

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I write as a person with 28 years experience in the investment / financial planning industry involved in direct client advising, training and supervision of authorised advisers and administering investment (AFSL) licenses. Currently I run a small boutique planning and advisory business.

Public access to quality investment advice

There have been significant advances in my time within the investment / financial planning industry. Over the past 28 years most changes have been positive, with many of the questionable practices being identified and in the process the public being progressively protected against unscrupulous people both licensed and unlicensed.

Ultimately what we all want is a means for all Australians to be able to access quality financial advice that they can rely upon.

I must however stress there is a difference between quality strategic financial advice and the potential risk of gain or loss in investments. As we have seen over the past 2 years the investment markets are not constant and there can be significant volatility. That volatility can lead to either short term or even permanent losses of capital.

Fees & Charges

There has been significant debate as to how fees should be charged to people who seek financial and investment advice. The most noise comes from the highest funded sectors of the market who are espousing their vested interests.

There are a multitude of options that could be taken into account, commissions, percentage of funds under management, adviser service fee, flat dollar, hourly rate to name a few.

At the end of the day does it matter? So long as there is full disclosure to the client of all fees, charges and any vested interests.

My clients are charged a performance fee based on assets under management, where I have a vested interest in the client, endeavouring to increase their value on the up side but trying to protect it on the down side.

Is that right or wrong?

I do not know but I do not accept commissions or enticements from investment product providers as I believe this would compromise my judgement. My clients understand the fees and accept that as my charge.

It is all about transparency to the client

There are a number of product providers out there that put themselves out as being holier than thou but through shelf space charges and a range of other non-disclosed fees and charges there have been people getting very rich, while having the funds to tread on anybody who questions their ethics or practices.

A level playing field for all participants no matter whether they be funds managers, product providers or advisers is what is needed, not selective disclosure.

The cost of giving quality financial advice

The costs of giving financial advice are increasing by the day compliance, researching, software, education, insurance etc, etc.

For a small boutique practice, it is now costing us approximately $1,000 per month per adviser in professional indemnity insurance cover.

As with the changes made to the insurance industry in the early 1990's you must be aware of the fact that over time as costs increase those people in most need of financial and investment advice will in fact no longer have access to the quality advice they deserve because we (licensed advisers) will not be able to afford to advise the small value clients.

Most of the working families in Australia are now under insured as there are very few quality insurance advisers left in Australia that can afford to advise to the everyday mum and dad that need to insure themselves.

Advertising and reality

It is very clear who is making all of the money in the investment and superannuation industry these days.

One would have to be somewhat cynical that the organisations that claim that they pay all profits to their members and are there only for the members, can advertise in prime time TV, sponsor key football code teams and have the financial ability to criticise every other market participant. Nobody else can afford that type of exposure!!!

Reality is most "financial planners" try very hard to do a good honest job and act in the best interest of their clients but are easy prey for the highly funded cashed up media and industry super funds.

Good news never sells!

If I set up investments for a retiree that was told by their accountant or solicitor they will never get a pension and they get a full or part Age Pension and are happy they have had quality financial advice this will not make the front page of the Financial Review. If they are still a happy client that I am managing their investments 15 years later that will also not be newsworthy.

The Storm Syndrome

Some 15 years ago I worked for a securities dealer in a training and adviser supervisory roll, where the main director of Storm Financial was then licensed. At that time my equal in Queensland identified some of the practices that the directors of Storm were engaged in and warned the then Securities Dealer that he was an accident waiting to happen. That national dealer did nothing as Mr Cassimatis was the largest writer of business for that company in Australia.

- I am amazed that ASIC as the regulator or industry associations did not identify the questionable practice of this group many years prior. The practice of gearing every client that walks through the door was being done then and clearly continued without question.
- Clearly the greed of the licensee, the product providers and the clients overshadowed the reality in this house of cards.
- Gearing as a concept has its place whether we are talking property or shares but only very selectively and only for those people who have the financial capacity, the risk tolerance and the understanding of the potential for losses and/or gains associated with this strategy.

Industry Research

As advisers we buy in research from multiple sources and spend many hours reading reports and interviewing potential investment companies that may suit our client's needs.

Much of the cost of giving advice is in this process but at times we have been burnt by poor quality primary research or undisclosed issues that research companies have either not identified or chosen not to review as they may not get the fees they charge direct to the funds managers if they come out with a questionable or unfavourable report.

As an example a particular investment fund in recent times had the highest rating, ie five star, highly recommended etc with a number of ratings companies but it fell over exposing investors to somewhere between 70-100% loss.

Thankfully our clients only had a minimal exposure if any but it highlights the fact that even though we take all efforts to reduce client losses/risk as advisers we are reliant on a system that in itself is not perfect.

Vested Interests

There has been a continual contraction of the market in recent years where it has become dominated by the large financial institutions and/or funds managers.

Last published statistics noted that around 70% of all advisers were licensed to a financial institution or product provider. Many of these advisers promoted themselves as being licensed to an AFS licensee which had no apparent ties to the product but the advisers were either tied to that parents products or were differentially remunerated bias toward the parent product.

Clear disclosure or licensee restrictions and ownership need to be more clearly identified authority holders restricted to the parent product should be differentiated within designation and disclosure.

Summary

There is always a trade off between free market and over regulation. We do need a strong independent regulator and quality standards no matter whether we are talking the investment industry, government, whoever!

Ultimately there are good and bad investment products and advisers just as we acknowledge we have some good and bad governments, the problem with both is that in may cases the decisions we make today may well look good but may not produce the result we all wanted. Only time will judge us.

Do not get sucked in by the vested interests of those with the biggest pockets as it may well mean that the people we are trying to protect the most are those that ultimately are disadvantaged.

Choice and transparency combined with fair market competition needs to be a priority for all.

I thank you for your consideration