Senate Select Committee on Superannuation and Financial Services

Main Inquiry
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Submission to Senate Select Committee on Superannuation and Financial Services.

From the Association of Financial Advisers

Access to Good Advice
Ideally **every Australian should always be able to access financial advice** when that person requires it. This advice needs to be good advice. **Free advice is not always good advice.** The issue therefore is by what means that advice is paid for, and where the funds for the payment of that advice will come from.

Every working Australian has contributions put into a Superannuation Fund by their employer. This asset will be, in a majority of cases, the largest asset that a working Australian will have in their lifetime.

A rule of thumb concerning compound interest is that over say a 30 year period the funds at the end of that period will be nearly doubled if in the management of that fund results in an extra 2% being earned. Management of this asset, therefore, can be regarded as an issue in consumer protection.

This means that advice is very important even when the amount in superannuation is relatively small at the commencement of a working life. And no one could argue that a person nearing retirement with say $600,000 in their superannuation should not be encouraged to seek advice as to how to manage this fund.

Information, Education Advice
In Australia, suitable information needs to be available for all financial products, and education on financial matters for the consumer is getting better all the time. However, these supplement, but **do not replace the need for detailed financial advice** for each consumer individual special needs.

The argument is not then about whether advice should be sought and be available, nor about the quality of the advice, it rather about **how the adviser should be paid.**

Paying for Advice
There are **two fundamentally different ways of finding the funds to pay for the advice. The first is directly from the consumers** themselves. **The second is indirectly, from the product that is used**. The second method is useful as often the consumer does not have cash up front to pay directly, and if this is the case, the funds needed to paid for the advice can be found, and the advice needed is available to the consumer.

Distribution Costs
In the provision of all financial products there is a **distribution cost**. This cost is separate from the production cost of the product. Total distribution costs, which may or may not contain commission, can be calculated for each financial product. These total costs need not be disclosed under the present regime, but are comparable for all financial products.

There needs always to be a distribution cost, because without such a cost the consumer will not be aware of the virtues of that particular product, and will not be able to consider it in the decision making process of what to buy.

Some industry superannuation funds have relied on other means, for instance peer pressure or compulsion to use a particular fund and so reduce distribution costs. This will keep costs down for this particular product, but in the long run this method of distribution presentation, ie cutting costs, is countered by the fact that over the long haul investment returns are much more important in the end results than distribution costs of the particular product.

Commission in Distribution Costs
Many financial manufacturers provide products use **commission in a product's distribution costs.** Using commission for remuneration for proper advice and delivery of the product transfers much of the cost of marketing to advisers. By transferring the risk in terms of time and capital to advisers, this method of distribution is very efficient to the product manufacturer as they only pay a distribution cost upon completion of the business. This efficiency has the indirect effect of keeping distribution costs down to all consumers.

In Australia, where commission paid effects the end result of the product, this commission needs to be disclosed to the consumer at the point of sale or completion of the transaction.

Commission is only one part of the cost of distribution of financial products where it is used, but it is the area that "disclosure" discussion invariable focuses on, usually in isolation, and for emotive effect. This is well illustrated by the former Secretary to the Treasury Bernie Fraser when he says in TV advertisements "We pay no commission" He does not go on and disclose the distribution costs which would including the cost of producing and airing the TV advertisements in which he was appearing, or the cost of providing advice through salaried employees..

Disclosure of gross cost of Distribution
For the protection of the consumer, disclosure standards should apply equally and consistently to all distribution channels whether commission advisers, salaried advisers, over the counter, direct mail, electronic, or whatever else comes along.

The fairest way to achieve this is to disclose the gross cost of distribution priced into the financial product.

To do this in a satisfactory way will need **specific rules for the calculation** of this gross cost. These rules, once agreed upon by the Financial Services Industry should be come part of the overall Financial Services Industry legislation now being put into place.

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